1986
Budget Highlights

Alberta

TREASURY

HON. LOU HYNDMAN
Provincial Treasurer

Summary and Highlights

The highlights of the 1986 Alberta budget are

- no new taxes, no increases in existing low tax rates and no increase in low health care premiums;
- agriculture a priority, with a 77% budget increase and the long-term cost of money stabilized through the new, twenty-year, $2 billion Alberta Farm Credit Stability Program;
- a commitment to the imaginative new $500 million provincial-municipal partnership program and a new Heritage Fund Municipal Recreation/Tourism Areas Program, both of which will stimulate construction and jobs throughout Alberta;
- a three-way boost for our senior citizens through
  - a $48 million extension of the Seniors' Home Improvement Program,
  - major additional funding for home care and
  - 600 new spaces for auxiliary, nursing home and lodge residents throughout Alberta and major quality improvements to existing nursing homes;
- more than $4 billion in grants, with higher-than-inflation increases of 4% to support basic and advanced education, and hospitals and medical care;
- further broadening of our economy and new jobs through priority support for tourism, forestry, research and technology;
- continued trimming of the public service and further initiatives in privatization and deregulation; and
- a combined deficit of $1.9 billion, with only 2% of provincial revenue to be used to pay interest on debt.

In conclusion, this budget provides steady reassurance to Albertans at an admittedly uncertain time.

Alberta's fast economic recovery in 1985 showed how quickly we can bounce back from temporary adversity.

Agriculture receives priority support through a range of initiatives unmatched by any province. We have responded and will respond as necessary to energy industry problems.

Dozens of programs will help maintain existing jobs and create new employment. As well, benefits from this budget will flow to seniors,

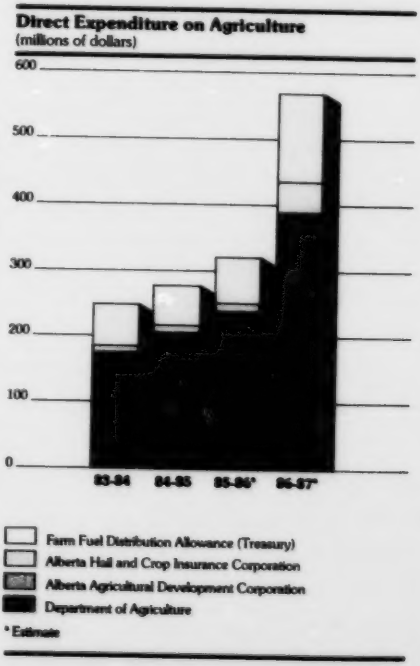
students, workers, taxpayers, women, consumers, small business people and investors.

A responsible fiscal balance is achieved while holding down taxes. Even with a large deficit, our debt costs will be the lowest in the nation.

Living with uncertainty is never easy, but in Alberta, in 1986, we can be reassured in the knowledge that our deep and broadening strengths mean jobs and growth in the opportunity years ahead.

Our Commitment to Agriculture

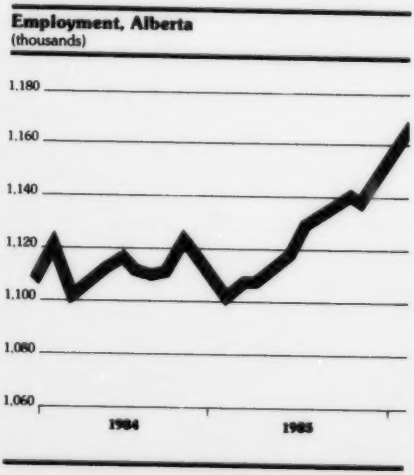
- The Alberta government stands four-square behind its commitment to agriculture as a way of life and an industry. It is our renewable economic strength.
- The government has taken action in two areas:
  - income maintenance by providing a strong safety net through stabilization programs and strengthened insurance initiatives and
  - input cost reductions by lowering the costs of farming and ranching through less expensive fertilizer, energy and credit.
- To cushion farmers and ranchers from the drought, the government responded quickly with a two-year action plan.
- To shield farmers and ranchers from high energy costs, the government doubled the subsidy for gasoline.
- To protect farmers and ranchers from high and unpredictable credit costs, the government recently announced the massive new Alberta Farm Credit Stability Program. It will provide a fixed 9% interest rate for two decades.



- A separate budget document highlights the provincial government's priority commitment to agriculture. Alberta ranks number one in Canada in terms of support for our farmers and ranchers.
- This year we are budgeting $567 million for agriculture, up 77% from the comparable budget figures for 1985-86 and double the amount of two years ago.

Jobs, Jobs, Jobs

- This government understands the importance of having a job and the frustrations created when an individual cannot find work.
- Job creation and training programs are a priority concern: working with the private sector, we are doing more than any other government.
- In 1984 we launched a unique, quarter billion dollar package of new and enriched employment and training initiatives. Close to two dozen programs are involved, many addressing youth unemployment. This year $178 million is budgeted for job creation and manpower training.
- Our capital program will maintain and create thousands of jobs for Albertans. This year our capital budget is targeted at $1.5 billion and over $330 million will also be provided for construction projects from a new capital fund.
- Additional capital funding of $205 million will flow from the Heritage Fund and the capital activity of Crown corporations is expected to reach $740 million in 1986-87.
- The government also boosts employment through a variety of programs that strengthen our dynamic small business sector and promote investment.



- Jobs in the future will result from the wide range of technological building blocks the provincial government has recently put in place in cooperation with the private sector.
- The right education is essential to obtaining a job in the rapidly changing and increasingly sophisticated world. This government provides top-level support for education, including the best student financial assistance programs in Canada.

Broadening Alberta's Economic Base

- Our economic development strategy is clear: build on strengths to achieve our goals of sustained growth and a more broadly based economy.
- Our small business sector is a strength and a major creator of jobs. The province provides support for small business, ranging from our low tax rates to the new Alberta Stock Savings Plan.
- To sharpen the edge of the province's economic diversification efforts, three new departments were created: Tourism; Technology, Research and Telecommunications; and Forestry.
- Tourism is a natural advantage for Alberta. This budget provides funding to increase tourism promotion and improve standards. The new, four-year, $10 million Municipal Recreation/Tourism Areas Program funded by the Heritage Fund will see over 100 recreation areas established. Jobs and tourism opportunities will result.
- Alberta has a world-class standing in the research community through the Alberta Heritage Foundation for Medical Research and the Alberta Oil Sands Technology and Research Authority. The new department will be a catalyst for Alberta's research and development efforts.
- Forestry is our hidden strength. A separate, high profile forestry department will help to reach our future potential. A five-year agreement worth $23 million has been signed with Ottawa to accelerate efforts in reforestation, marketing and research.

Senior Citizens

- We pledge to ensure that our elderly, who have contributed so much, are able to live in dignity. The programs offered by this government are without equal in Canada:
  - premium-free health coverage and other health benefits,
  - assured annual income,
  - social allowances for the elderly,
  - property tax rebates and renter assistance grants,
  - self-contained and lodge accommodation,
  - special home heating grants and
  - home improvement grants.
- This budget confirms three new initiatives to assist seniors:
  - The Seniors' Home Improvement Program, which was scheduled to terminate this coming December, will now be extended to the end of 1989 with additional grants of $48 million.
  - The successful and cost-effective Home Care Funding Program will receive total funding of $33 million, an 18% increase.
  - Nursing home quality improvements will total $18 million, an increase of almost 16%. 600 new nursing home, lodge and auxiliary spaces will be provided.
- Overall this government will provide $830 million in benefits to our senior citizens in 1986-87.

Help For Those In Need

- We continue our comprehensive support to those Albertans who are disadvantaged and require special assistance.
- Support for the Assured Income for the Severely Handicapped Program is increased by 13%. Funding for the Day Care Operating Allowance and Day Care Subsidy Programs goes up by 14%. Funding for the Family and Community Support Services Program will jump by 25%. The total budget for all social service programs will rise to $1.1 billion.

- 1986-87 will see the first full-year operation of the Alberta Maintenance Enforcement Program at a budgeted cost of $3 million. An additional $1 million will be set aside for emergency shelters for women. Legal aid is targeted to receive a 14% increase. The new Impaired Drivers – Repeat Offenders Program will receive $2 million.

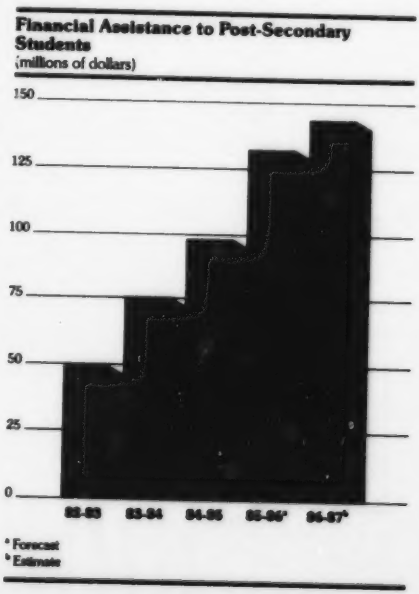
Health Care

- The provision of one of the finest health care systems in the world is another reflection of this government's commitment to people.
- For 1986-87 this budget provides $2.3 billion to cover both the operation of our health care facilities and the services of health care professionals. Including capital expenditure, this amounts to $1,100 for each Albertan.
- The operating expenditure associated with our modern hospitals and nursing homes will total $1.7 billion in 1986-87. Our hard-fought campaign to reduce health care cost pressures is working.
- Again this year there are no increases in health care premiums. The total cost of medical services is $831 million; less than 25% is paid for by premiums.
- Community health programs are an important part of Alberta's total health care assistance package and will receive funding of $214 million.
- For 1986-87 the province will provide $281 million in capital construction funding for health care. Approximately $83 million will be made available for the continuing construction of the two urban hospitals in Edmonton and Calgary. Rural hospitals will receive capital support in the amount of $93 million.
- We have given the green light to the Northern Alberta Children's Hospital. Funds will be provided in this year's budget for planning purposes.

Education

- Through our top-ranking support for education we invest directly in our most important resource – people.

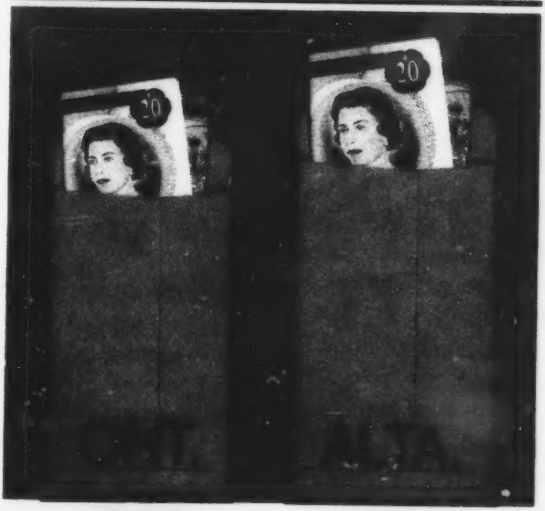
- The 4% basic grant increase for education exceeds inflation. For 1986-87 per pupil grants to school boards will increase by $38 million to a total of over four-fifths of a billion dollars. An extra $5 million will be provided to begin development of the important high school "New Basics" curriculum initiatives.
- For the basic Grade I-XII education system, we are budgeting $154 million for capital debt retirement.
- Our self-governing post-secondary education institutions will receive basic operating grants of $658 million. Five million dollars in funding will be provided for contemporary new courses and the operation of new facilities. Special enrolment funding for post-secondary institutions will reach $21 million in 1986-87, an increase of 13%.
- This year our universities, colleges and technical institutions will receive total provincial capital support of $52 million to fund the construction of 19 new and previously approved projects on 12 campuses throughout Alberta.
- $80 million will be made available over the next five years for a new and revised Advanced Education Endowment Fund.
- To ensure that financial problems do not deter young Albertans from attending higher learning institutions, this government provides student financial assistance beyond compare anywhere in Canada. For 1986-87, $143 million is budgeted for student financial support and $40 million in new student loans will be guaranteed.



Taxation

- In this budget there are no new taxes nor are there any increases in existing tax rates.
- Alberta individuals and businesses continue to enjoy the most favourable tax environment in Canada. This helps keep existing jobs and create new ones.
- Albertans pay the lowest personal income tax rate; they pay no sales, gasoline or payroll taxes. In dollar terms, this means a representative family in Alberta would have at its disposal $1,475 more, after provincial taxes, than a comparable family in Ontario.

Comparison of Take Home Pay After Provincial Taxes
(for a family of four with a gross income of $30,000)



$26,631 **$28,106**

MAJOR PROVINCIAL TAX RATES[a]

	Personal Income Tax		Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Care Premiums		Corporate Income Tax		Capital Tax	Payroll Tax
	Basic Rate	High Income Surtax				Individual	Family	Small Business Rate	General Rate		
	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($)	($)	(%)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	8.56	0.86	204	432	8	16	0.2	—
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Saskatchewan	50.0	12.0	5	—	1.02	—	—	0/10[b]	17	0.5	—
Manitoba	54.0	20.0	6	8.90	0.78	—	—	10	16	0.2	1.5
Ontario	50.0	3.0	7	8.30	0.68	357	714	0/10[c]	14.5/15.5[c]	0.3	—
Quebec	70-85	—	9	13.65	1.13	—	—	3	5.5/13[d]	0.45	3.0
New Brunswick	58.0	—	11	9.70	0.94	—	—	5/9[e]	15	—	—
Prince Edward Island	52.5	—	10	9.50	0.38	—	—	10	10	—	—
Nova Scotia	56.5	—	10	9.70	0.60	—	—	10	15	—	—
Newfoundland	60.0	—	12	10.90	1.20	—	—	10	16	0	—

[a] As of April 1, 1986.

[b] The lower rate applies to income from manufacturing and processing. In Saskatchewan, the 0% rate also applies to the first two taxation years of new small businesses.

[c] The 0% rate applies to the first three taxation years of new businesses. The 14.5% rate applies to income from manufacturing and processing, mining, logging, farming and fishing.

[d] The 5.5% rate applies to all active business income.

[e] The 5% rate applies to small businesses with income of $100,000 or less.

Heritage Fund Support

- Helping to protect us from the skittish world energy situation is the Heritage Fund. Every dollar of the investment income from the Heritage Fund will be used for jobs and for economic and social programs.
- In 1986-87 this income from the Heritage Fund will total $1.5 billion, enough to pay the costs of people services and facilities for almost two months.
- Since 1982 – when the Heritage Fund umbrella was brought out and opened – through to the end of this fiscal year, a total of over $7 billion in protection and stability will have been provided to Albertans in all walks of life.

Heritage Fund Support for Jobs and for Social and Economic Programs
(millions of dollars)

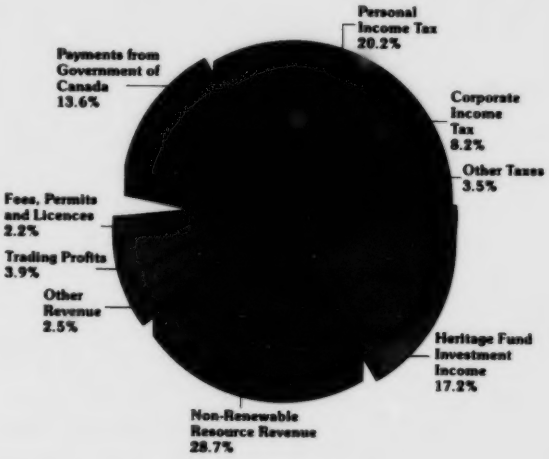
Financial Highlights

- Budgetary revenue is estimated at $8.5 billion which, together with Heritage Fund resource revenue of $440 million, results in combined revenue of $9.0 billion.
- Budgetary expenditure is estimated at $10.7 billion which, together with Heritage Fund outlays for capital projects of $205 million, brings combined expenditure to $10.9 billion in 1986-87.
- A combined deficit of $1.9 billion is estimated for 1986-87.
- This is a sizeable deficit but it is manageable given our basic financial strength. We enter 1986-87 with an accumulated budgetary surplus of over $900 million and over $12 billion in income-earning assets of the Heritage Fund. Our per capita debt levels are by far the lowest of the federal and provincial governments. Responsible fiscal management in previous years will keep our debt servicing costs at only 2% of revenue in 1986-87.

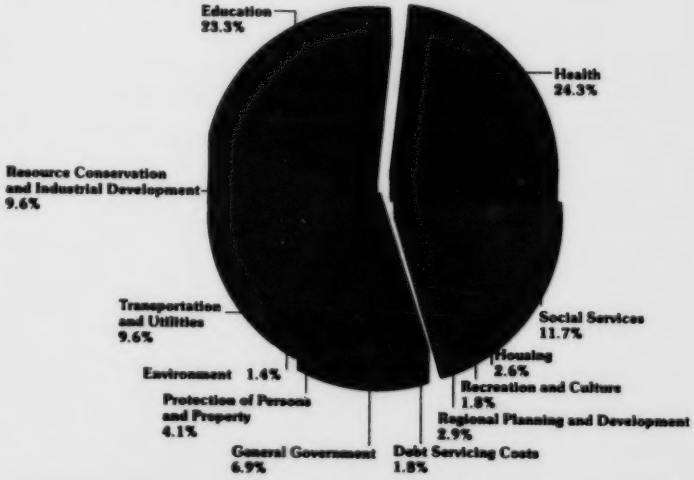
Summary Financial Plan
(millions of dollars)

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Combined Revenue				
Budgetary				
General	7,050	8,213	8,175	8,547
Heritage Fund Investment Income	1,465	1,680	1,694	1,575
Heritage Fund Resource Revenue (15%)	440	671	677	719
	8,955	10,564	10,546	10,841
Combined Expenditure				
Budgetary				
Operating	9,121	8,603	8,365	7,548
Capital	1,583	1,630	1,700	1,531
Heritage Fund Capital Projects	205	248	287	228
	10,859	10,481	10,352	9,307
Combined Surplus (Deficit)	(1,904)	83	194	1,534

Budgetary Revenue
By Major Source, 1986-87 Estimate



Budgetary Expenditure
By Major Function, 1986-87 Estimate



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BUDGET ADDRESS

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HON. LOU HYNDMAN
Provincial Treasurer

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Presented by the Honourable Lou Hyndman
Provincial Treasurer
in the Legislative Assembly of Alberta
on Thursday, April 10, 1986

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1986 Budget Speech

This is the first budget initiative under the leadership of Premier Donald Getty; it also marks my eighth budget as Provincial Treasurer.

It reflects Alberta's deep strengths and bright future. It is a budget of reassurance and justified confidence to and through the nineties.

The temporary oil price uncertainties are a concern. But Albertans have shown they can tough it out through adversity. By pulling together, in partnership with a government that has a realistic game plan, Albertans know they can handle problems that are thrown their way and can look ahead to opportunity.

The circumstances that caused the 1982-83 downturn are not present now. Interest rates and inflation have fallen dramatically. The National Energy Program has been replaced by the Western Accord. The Alberta energy incentives of June, 1985 and April, 1986 are in place. Lean and trim, our provincial economy is no longer built on unreasonable speculation. The Canadian economy is strong and growing.

Through these last eight years, my objective has been to balance steady economic progress and increased standards of living with the goal of fiscal responsibility – this budget continues that balance.

1985 was a banner year for Alberta economic performance. Our private sector strengths powered the recovery to solid growth. We have the momentum to carry us forward. The fast recovery in our economy in 1985 showed just how quickly this province can rebound from temporary adversity. Alberta's economy is in fighting shape and our entrepreneurs will capture new opportunities. Despite world oil price instability, Alberta is still one of the best places in the world for oil and gas development.

Alberta's Economic Outlook – Confidence is Justified

Last year was marked by a renewed spirit of confidence in the basic strength and future of Alberta's economy. The recovery continued to broaden. Alberta's overall economic performance was the best in years.

Restored investor confidence was clearly evident in our key oil and gas industry. The federal-provincial Western Accord, Alberta's June, 1985 changes to the royalty and incentive system, and the Agreement on Natural Gas Markets and Prices improved our oil and gas producers' cash flow. By reducing the industry's fiscal load and deregulating markets, these major policy changes significantly strengthened Alberta's oil and gas industry.

The new fiscal and regulatory environment has provided momentum and flexibility. This enables the industry to cope better with lower oil prices. It also creates a favourable environment in which to plan the development of new energy supplies for Canada.

The current national and international economic scene is a challenge for Alberta businesses. World oil prices are volatile, competition in natural gas markets is vigorous and agricultural prices are uncertain.

Alberta's private sector is pulling together to meet these challenges.

Alberta is not an island. The performance of our economy depends on developments outside our borders.

Although the world's major industrialized market economies expanded in 1985, their overall growth was modest and uneven. The United States economy slowed its rate of expansion, reflecting the federal deficit, an overvalued currency and a large trade deficit. Positive actions have been taken. Domestically, the American government is dealing with its budgetary deficit. Internationally, successful cooperative action has been taken by the five largest western economies to lower the value of the United States dollar and restore more balanced international trade flows. This international cooperation should help stave off protectionist sentiments in the United States.

The impact of these developments is potentially far reaching for Alberta. To prosper, we can and must trade in foreign markets. Alberta industries would be strengthened by strong economic growth in North America and overseas. That will happen if there is international cooperation in the design of economic policies and a strong world commitment to freer trade.

Renewed federal-provincial cooperation in setting trade and economic strategies based on regional strengths and private sector initiatives will boost investment and create jobs.

The Canadian economy performed well in 1985. Bolstered by a resurgence of consumer confidence and a much improved investment climate, real economic growth averaged 4.5% last year. With continued growth in the United States and most other industrialized countries and the strong commitment of our eleven governments to work cooperatively to achieve key national economic goals, the prospects are for further national economic expansion in 1986. Alberta will benefit from that expansion.

Canadian economic expansion will be led by consumer and investment expenditure this year. Employment growth and low inflation will further strengthen consumer demand. Investment activity will be sustained by the momentum of four years of national economic growth.

In its February budget, the federal government made further progress in reducing its deficit. Restoring integrity to federal finances is essential to the maintenance and enhancement of Canada's long-term economic prospects. Further improvement in the federal government's budgetary situation is needed to sustain consumer and investor confidence and reduce interest rates. Because the Alberta economy is capital intensive and our competitiveness is seriously impaired when we have interest rates higher than those of our main trading partners, lower and more stable interest rates must be a clear federal government priority.

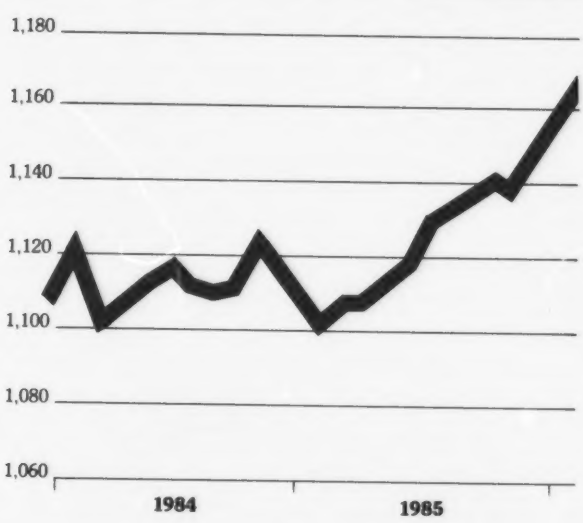
For the first time in years, a medium-term plan for Canadian economic renewal is taking shape. The start of negotiations for a free trade agreement with the United States is historic. Federal and provincial governments are working together to identify national goals and devise policies that set the stage for the private sector to achieve those objectives. The foundation is being laid for high levels of investor confidence.

The Alberta economy pushed ahead with renewed vitality in 1985. Albertans must not over-react to the swirl of speculation in world energy markets. By pulling together we can meet the challenges facing us in 1986.

In 1985 the Alberta economy expanded strongly. Despite the drought that depressed crop yields, our real gross domestic product increased by about 4% and virtually all sectors other than agriculture expanded. Total investment grew by 12%, with investment in the oil and gas sector increasing by an impressive 29%.

Over the last twelve months, the number of Albertans with jobs increased by 56,000 and the unemployment rate dropped a full 1.8 percentage points.

Employment, Alberta
(thousands)



Albertans know they cannot be shielded from international developments. The recent turbulence in world oil markets is a concern, as are soft markets for our primary grains. But we must not over-react. Despite these world-wide developments, we should all remember that Alberta's economy is basically strong and vibrant and will continue to expand. With the positive momentum gained in 1985, I expect the Alberta economy to register real growth this year.

Both exports and consumer expenditure should lead the economic expansion this year. Assuming favourable weather conditions, grain shipments should post a healthy increase when the harvest is marketed. Exports of natural gas and manufactured goods to the rest of Canada and the United States should also continue to improve. Higher employment and increased take-home pay should see high real consumer expenditure being sustained. Private investment, already at high levels, should remain stable in 1986.

We recognize that some Albertans are being hurt. Being out of work is a devastating experience. We, too, are concerned and will help wherever we can. We will provide support and work together with the private sector to assist in reducing the unemployment problem. Over 10,000 new jobs will be created this year.

Partly as a result of a stable wage and salary climate, inflation last year in Alberta was below the Canadian average for the third year in a row. It should average a low 3.5% in 1986.

Oil and gas are building blocks of the Alberta economy. The long- term world energy fundamentals favour Alberta and should be the focus for investment today to ensure Canadian energy self-reliance.

By deregulating oil prices and phasing out or eliminating five federal taxes, the Western Accord dismantled what was left of the National Energy Program. The result was substantially improved cash flow for oil producers.

Last June a major Alberta royalty reduction and incentive package was introduced to encourage our oil and gas industry further. It included a reduction in royalty rates on oil and gas production, royalty holiday programs for new oil and gas wells, and an increase in the Alberta Royalty Tax Credit designed particularly to assist small producers. These measures ensure that the benefits of oil price deregulation flow to the industry.

Earlier this month a further enrichment of the Royalty Tax Credit from 75% to 95% and a new $300 million temporary Exploratory Drilling Assistance Program were announced.

These Alberta initiatives improve producers' cash flow, encourage drilling activity and jobs, and

reward those who invest in the future of Alberta's promising energy resources.

Over the past twelve weeks, world oil prices have fallen. It is too early to predict prices in the months ahead but these lower prices must be put into proper perspective:

- Major policy changes over the past year have significantly improved the industry's financial ability to withstand the impact of lower and volatile prices.
- United States gas markets will improve over the next few years, resulting in substantial rewards for the industry and Alberta's economy.
- Our economic growth is now more broadly based than it was before the 1982-83 downturn and is better able to cope with a softening in energy investment.
- Most importantly, the medium and longer term prospects for energy prices are positive. Oil is a depleting resource. Alberta has it.

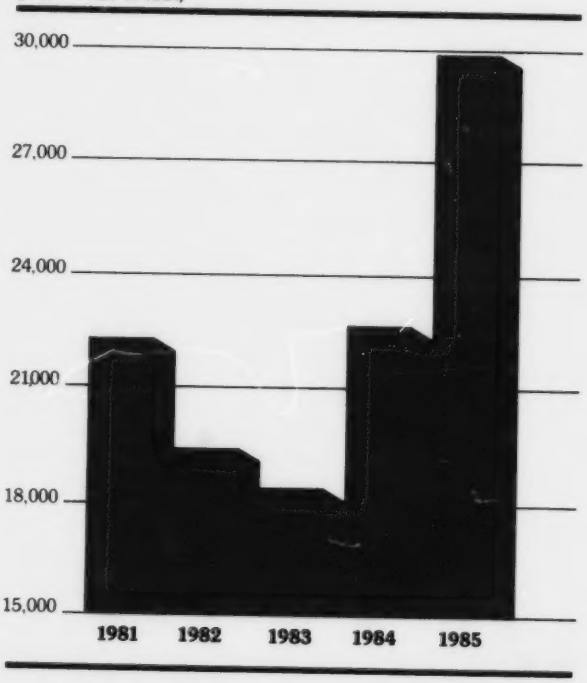
The future development prospects for our energy resources are unequaled given

- the basic strength of the industry,
- our favourable taxation and royalty regime and
- our firm commitment to a policy environment which maintains rewards for successful investors.

These longer term fundamentals are unaffected by current short-term oil price weaknesses. The proposed Husky upgrader and Syncrude expansion projects are examples of oil investment decisions that should not be dependent on temporary price fluctuations. Investors have shown that they have confidence in Alberta's longer term future as an important source of secure oil and gas supplies. This government is firmly committed to working with investors in planning for major future energy investments.

A review of the energy industry's 1985 performance shows its strength and vitality. Development footage drilled rose a remarkable 36%; exploratory footage drilled rose 20%. A total of 7,623 conventional wells were drilled, a new all-time Alberta record.

Total Footage Drilled, Alberta
(thousands of feet)



Development of Alberta's huge oil sands deposits accelerated in 1985. Major in-situ projects such as Esso Cold Lake, BP Wolf Lake, Dome Lindbergh and Amoco Elk Point raised the production of bitumen to 43,000 barrels a day. New capacity should further increase production this year. Syncrude and Suncor pushed production of synthetic oil to 168,000 barrels a day, a 25% increase over 1984 levels. With a stable output of conventional oil, Alberta's total production of crude oil and equivalent should increase further this year.

Natural gas producers increased their sales volume by close to 10% last year despite strong competition in the United States and eastern Canadian markets. These volumes should rise again this year although average prices could be lower than in 1985. The Agreement on Natural Gas Markets and Prices is helping our producers to achieve further penetration in all markets and Alberta gas producers are well positioned to reap substantial benefits when the current United States gas surplus is absorbed.

This government is committed to the long-term health of our energy industry. We will work with the industry to ensure that every potential option is considered.

This government stands four-square behind its commitment to agriculture as a way of life and as a key Alberta industry. It is our primary renewable economic strength.

The family farm remains the historic foundation of our province. We are committed to the long-term health and strength of agriculture in Alberta.

There are two basic ways in which our government can assist: by providing a "safety net" to stabilize the industry and reduce risks, and by lowering farm and ranch input costs. World prices and demand are factors beyond our control.

Last year the volume of grain production fell due to a very dry early season, grasshopper infestation and heavy rains in much of the province during harvest. Poor weather also reduced the average quality and the value of the crop. These two years of very adverse weather conditions, coming after a period of hardship created by high interest rates and falling land prices, left many Alberta farmers in difficult circumstances.

The Alberta government has acted quickly to increase support to the agricultural community and to help our farmers. Major program initiatives were introduced, including funds to facilitate payment of crop insurance claims, enrichment of the Alberta Farm Fuel Distribution Allowance, the Alberta Feed Grain Market Adjustment Program and the Alberta Supplemental Livestock Assistance Program. Partly as a result of these initiatives and ongoing provincial and federal income stabilization programs, the decline in Alberta farm cash receipts was held to less than 3% last year.

Assuming a return to more favourable weather conditions this year, grain production should rebound by as much as 25%. But there are still longer term problems. Average wheat prices are expected to remain soft due to high world inventories and subsidization of production by most major producing countries. Oilseed prices are under pressure due to competition from soybean and tropical oils.

Livestock results were mixed last year. Receipts from the sale of cattle and calves rose more than 2% in 1985 but may soften this year due to herd liquidation. Long-term prospects of the livestock sector have been significantly improved by the creation of the National Red Meat Stabilization Program. Hog production increased by 12%, but lower prices caused total hog receipts to fall. Improvement is expected this year.

Alberta is not a two dimensional province. Our economic base is broadening year by year.

Most other sectors of the increasingly many-sided Alberta economy grew last year. Coal production was at record levels. Sulphur enjoyed an outstanding year. Lumber production exceeded one billion board feet for the third consecutive year. The real value of Alberta's manufacturing shipments grew by over 5%. The upgrading of our resources here in Alberta broadens our economy and creates jobs for Albertans.

This increased activity, coupled with the fact that many producers sold their goods in intensely

competitive markets, is clear evidence of the growing strength of our industries and the quality of Alberta products. Our business people have proven that they can meet challenges and prosper in the competitive world environment. Our citizens frequently overlook this surging growth and momentum in the marketing of our products and services outside Alberta.

Based on our fundamental resource strengths and the talent of our citizens, the future is bright for Alberta. We can be reassured in planning ahead for ourselves and our families.

Decisions taken in Ottawa, New York, Tokyo or Geneva will continue to shape Alberta's economic prospects. I am optimistic that national and international policy developments will lead to stable inflation levels and lower interest rates.

Deficit reductions in the United States and in Ottawa will allow real interest rates to fall and inflation to remain in check. Cooperative international actions to achieve better fiscal and monetary policy coordination and more stable exchange rates will help to ensure sustained international economic performance.

Finally, the cooperative spirit in which the federal and provincial governments are working to set forth national economic goals should continue to build investor confidence. That confidence is the single most important ingredient of a strong and prosperous economy.

Our private sector emerged from the 1982-83 downturn stronger and leaner than ever. Albertans have shown that they can take on the world and expand sales abroad through aggressive marketing. The Alberta government will continue to assist the private sector to penetrate international markets.

Compared to other provinces, in 1986 Alberta will be at or near the top in key performance indicators, such as

- retail sales per person,
- family income after provincial taxes,
- proportion of working age population with jobs and
- per capita construction expenditure.

Even with the temporary uncertainties in oil prices, Alberta's economy will continue to expand. Based on the momentum of the 1985 recovery and the fundamental strengths of our economy, we can achieve stable, sustained growth through to the nineties.

Fiscal Situation and Strategy – A Balanced Plan of Action

Alberta's unique financial strength has been developed through the responsible management of public funds.

Like the basically sound economy I have just described, our provincial finances have been kept in shape through prudent financial management.

In 1982-83 we faced a budgetary deficit of over $2 billion. This was turned around to a budgetary surplus of $1 billion in 1984-85 through two initiatives:

- First and foremost, the helping hand of the Heritage Fund was there when we needed it. Beginning in late 1982 the income earned on the assets of the Heritage Fund was used to supplement budgetary revenue.

— Second, we "bit-the-bullet" on government spending. This resulted in an actual drop in budgetary expenditure of $263 million in 1984-85 over the previous year. No other government in Canada has done that.

For 1985-86 I expect a budgetary deficit of $340 million and a combined General Revenue and Heritage Fund surplus of $83 million. Our debt servicing costs will be the lowest by far of any government in Canada. We have been able to achieve this even though assistance to our agricultural sector increased massively and even though we started to phase down royalty rates and offer new energy incentives. While these actions were costly, they represent investments in our long-term strengths. They will pay dividends down the road.

Debt Servicing Costs as a Percentage of Revenue, 1985-86

0.5%
Alberta

10.9%
Other Provinces

32.8%
Federal Government

Although we enter the new fiscal year facing uncertainty in world oil prices, we set out with an accumulated budgetary surplus of over $900 million and a unique Heritage Fund containing over twelve billion dollars in income-producing assets.

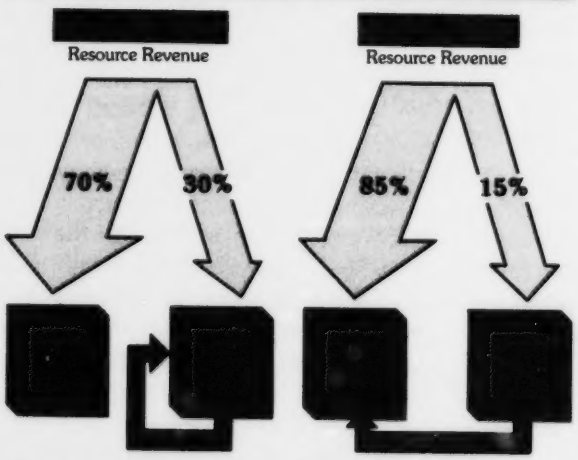
Other oil-producing provinces and states were spending every dollar of oil income, but we saved through the Heritage Savings Trust Fund. While others borrowed large sums in the anticipation of future oil price increases, we maintained a responsible "live-within-your-means" policy. The international investment community recognizes this financial strength. That is why they like to do business here. Jobs for Albertans are the result.

The fiscal game-plan for 1986-87 stresses realism, compassion and moderation.

The fiscal strategy for 1986-87 is based on two fundamentals:

— The basics of the Alberta economy are strong, despite short-term problems in agriculture and oil price uncertainties.

How the Heritage Fund Works



* The use of Heritage Fund investment income by the General Revenue Fund started in September 1982.

— Our financial footings as a province are solid, although caution must be exercised.

After carefully weighing the situation, we propose a balanced fiscal action plan for 1986-87 which will

— assist our farmers and livestock producers,
— stimulate small business job creation and maintain the momentum of economic growth,
— reach out to Albertans who are less fortunate,
— continue our quality "people programs" and facilities,
— further streamline government and
— maintain our success-oriented low tax environment.

Crucial to our ability to offer this fiscal strategy is the continued use of Heritage Fund investment income for day-to-day operating purposes. The Heritage Fund is our confidence-builder, our financial safety net. We will continue our commitment to the integrity of the Fund by maintaining the 15% resource revenue transfer this year. We must always remember that this transfer increases the budgetary deficit when revenue is low.

Expenditure Plan – Focus on People and Jobs

Based on the fiscal strategy just described, our budgetary expenditure package for 1986-87 is moderate, balanced and realistic.

This year's plan calls for total budgetary expenditure of $10.7 billion, only 4.1% over the 1985-86 forecast or 5.9% over last year's comparable estimates. Applying Alberta's expected inflation rate, real expenditure growth is targeted at less than 1%.

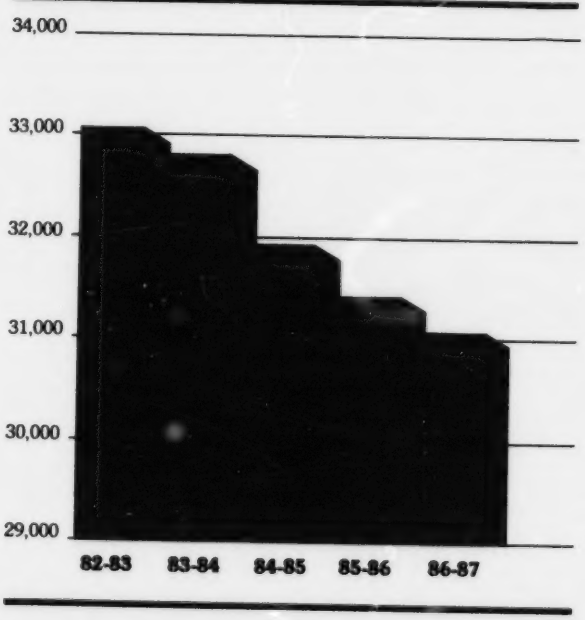
Streamlining government remains an ongoing priority. Our goal – to manage better with less.

I stress that the increased expenditure will not result in increases in government bureaucracy. On the contrary, we are continuing to downsize the public service. In 1986-87 we will trim a further 311 permanent positions from the rolls. The past four years have seen a total reduction of almost two thousand permanent positions. We will also continue the momentum of privatization.

The lion's share of the budget covers the operating costs of people programs that enrich the lives of all Albertans.

By far the largest proportion of our operating costs is composed of grants to hospital boards, school boards, post-secondary institutions and

Permanent Full-Time Public Service Positions



municipalities. Over 40% of our operating expenditure goes to these major grant recipients and about 80 cents of each grant dollar goes to pay wages and salaries, such as those of nurses, teachers, professors and municipal employees.

For 1986-87 we propose to increase these major basic grants by 4%, an increase which, for the first time in four years, surpasses the rate of inflation. Accordingly, these grant increases should reduce the pressure on municipalities, school boards and hospital boards. All taxpayers will benefit.

Spending on agriculture is investing in a long-term strength. This government does more than any other for its farmers and livestock producers.

A key thrust of our expenditure plan is agriculture.

The importance of agriculture cannot be measured just in terms of bushels per acre or head of livestock. It is more than economists' figures can convey; it means people working the land. Agriculture is a way of life; it reflects a closeness to the earth.

Our commitment to agriculture is deep and lasting. This government, acting for all Albertans, has as a priority – a strong and healthy agricultural industry.

To achieve this goal, we are taking action in two areas:

— income maintenance, by providing a strong safety net through stabilization programs and strengthened insurance initiatives and
— input cost reductions for farming and ranching through less expensive fertilizer, energy and credit.

Overall, our existing programs in these two areas are unmatched. Farmers know, realistically, that we have little control over world prices and demand for their products.

We will continue to expand our steadfast commitment to agriculture. Because drought had dealt a cruel blow to our agricultural community for a second straight year, beginning last August we responded with an extensive two-year action plan to provide special support for farmers and livestock producers:

— $162 million facilitated the payment of crop insurance claims.
— Crop insurance rules were eased to retain livestock feed in drought areas at a cost of $13 million.
— $29 million of provincial funding allowed crop insurance coverage to be restored to pre-drought levels; a further $35 million is provided in this budget.
— $25 million was allocated to the Alberta-Ottawa Livestock Drought Assistance Program and a further $12 million is budgeted for this year.
— A supplementary livestock assistance program was implemented at a cost of $41 million and a further $22 million is allocated for 1986-87.
— $3.5 million was paid to cover one-half the cost of insecticides to fight the drought-induced grasshopper outbreak.
— Emergency water supply programs received $11 million in financial support, including the new Farm Water Grant Program which has a three-year budget of $16 million, and construction of the $58 million Forty Mile Coulee reservoir was accelerated.

Our agricultural sector has also been adversely affected by market instability and distortions. To assist producers, we responded:

— $47 million in additional funding was paid to neutralize the impact on feed grain pricing of Ottawa's decision on the Crow Rate, with a 1986-87 budget for the Feed Grain Market Adjustment Program of $86 million.
— $42 million was spent under the Interim Red

Meat Insurance Program pending implementation of a national program. This budget provides $20.5 million for participation in the National Red Meat Stabilization Program in 1986-87.

Input costs are a major concern of our agricultural sector. Again, this government responded:

— The subsidy for purple gasoline was doubled retroactively starting January 1, 1985 through to March 31, 1987. The total program is estimated to provide benefits of $133 million annually.
— A program to reduce fertilizer costs was introduced at an estimated cost of $22 million in 1985-86 and this budget includes a further $24 million.
— The program to assist farmers who use natural gas in agricultural production has been extended through 1987 at an estimated cost in 1986-87 of $4 million.

An extra $3.6 million will be provided to the Agricultural Development Corporation in support of the Farm Development Loan Guarantee Program.

The massive new Alberta Farm Credit Stability Program will provide $2 billion of long-term, twenty-year money at predictable 9% interest rates. Farmers and ranchers will be able to plan ahead with certainty as to the cost of credit.

Fixed 9% interest rates for two decades will provide new-found stability to family farms and will remove uncertainty by flattening out the risk of rollercoaster interest rates. Existing farm debt can be restructured and consolidated and new loans secured for up to $200,000 per farm family.

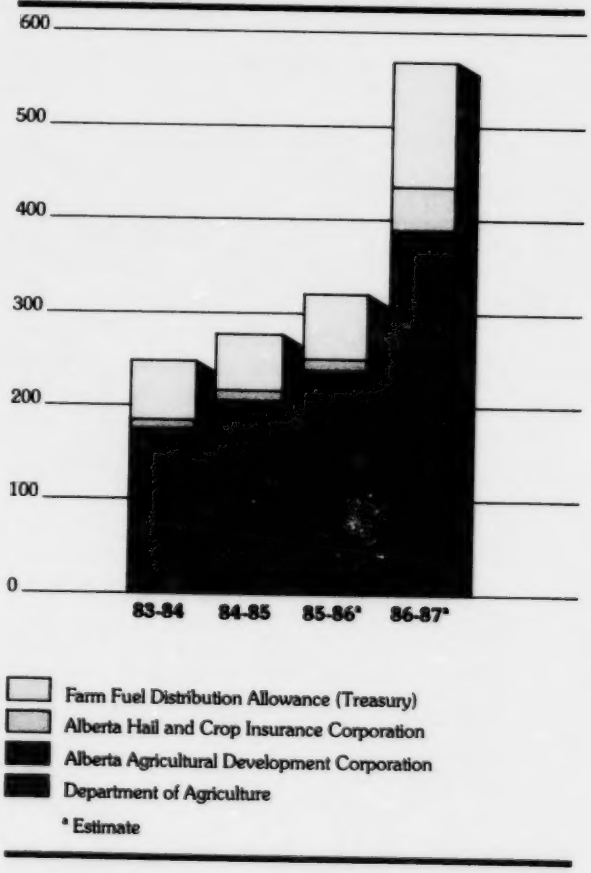
With this new stability in credit costs, our farmers and ranchers will clearly have the lowest overall input costs in North America.

Responsible fiscal planning has made this credit program possible. We have two unique strengths: the Alberta Heritage Savings Trust Fund and the highest provincial government credit rating in Canada. To help our farmers, these special strengths will be used – now.

A separate budget document highlights this government's priority commitment to agriculture. Alberta ranks number one in Canada in terms of support for farmers and ranchers.

This year the total budget for agriculture is $567 million, up 77% from the comparable budget figures for 1985-86, and double the amount of two years ago.

Direct Expenditure on Agriculture
(millions of dollars)



Jobs will result from government initiatives that broaden and strengthen Alberta's economy.

Our economic development strategy is clear: build on strengths to achieve the goals of sustained growth and a more broadly based economy.

That strategy works. The June, 1985 royalty reduction and incentive package built on our strengths in energy. The 1985 package and the more recent package of April 1st, 1986 demonstrate a major long-term commitment to that key industry. These initiatives will assist the oil and gas industry in weathering the current market instability.

Alberta is a province of small businesses. They provide most of the jobs and by far the largest proportion of new jobs.

Wide ranging support for jobs in small businesses is provided:

- The Alberta small business corporate tax rate is among the lowest in Canada.
- The five-year tax holiday for small businesses primarily involved in manufacturing and processing helps to broaden our economy and create jobs.
- The Alberta Opportunity Company has assisted thousands of small businesses.
- The Alberta Small Business Equity Program has made available $200 million for investment.
- The new Alberta Stock Savings Plan will strengthen smaller business and create jobs.
- Vencap is initiating positive employment spin-offs.
- The Economic Development department and its small business component provide "one-stop shopping".

We will continue to respond to the needs of small business and to boost this province-wide, job-creating sector of the economy.

To sharpen the edge of our economic diversification efforts, three new departments were recently created: Tourism; Technology, Research and Telecommunications; and Forestry. They will provide leadership and act as catalysts to broaden the economy and stimulate even more private sector jobs.

Alberta's beautiful and varied terrain and its man-made attractions make tourism a natural building block. Expo '86 in Vancouver and the 1988 Calgary Winter Olympics are springboards which will make Alberta even better known as an exciting tourist destination. The tourism promotion budget will receive a major increase for 1986-87. Funding will be provided to establish a Tourism Standards Council. Over $15 million will be spent on new tourism development initiatives under a recently signed five-year agreement with Ottawa.

A new, $4 million Festival Marketplace Program will enhance the attractiveness of the downtown cores of Calgary and Edmonton.

Research and development and the commercialization of research efforts will be even more important to our economy in the future. Alberta is developing world-class strengths through the Alberta Heritage Foundation for Medical Research. We receive international recognition through the Alberta Oil Sands Technology and Research Authority. 1986 will see the completion of the $53 million Alberta Research Council building which also houses the Electronics Test Centre. This year the Council will receive $23 million in funding for research work. On a per person basis, Alberta spends almost three times as much on research as any other province.

Forestry is gaining recognition as an important strength and the recent "Forestry Futures" paper plots an exciting course. World leadership in oriented strand board technology is here. Hardwood technology holds promise. Our economy can be broadened with future initiatives, led by a separate, high profile forestry department. A five-year agree-

ment worth $23 million has been signed with Ottawa to accelerate efforts in reforestation, marketing and research on new manufacturing opportunities for Alberta's extensive stands of prime timber.

This budget also marks the beginning of a new forest industry development initiative which will provide $3.5 million in funding for trade promotion and product commercialization.

This government funds job creation and training programs which are second to none. Education is critical to obtaining a job. High levels of support are provided.

There are few frustrations greater than those faced by a person who wants to work and cannot find a job. A job contributes to a sense of self-worth and brings stability to family life. There is no substitute for meaningful employment.

In 1984 we launched the unique, 30-month Employment Initiatives Program, a major focus of which is youth employment. For 1986-87 we are budgeting $99 million for this special initiative. In addition, the budget of the Alberta Vocational Training Program will be increased by 58% to $29 million to provide further retraining and skill upgrading for unemployed Albertans. In total this budget contains $178 million for job creation and manpower training programs over the next twelve months.

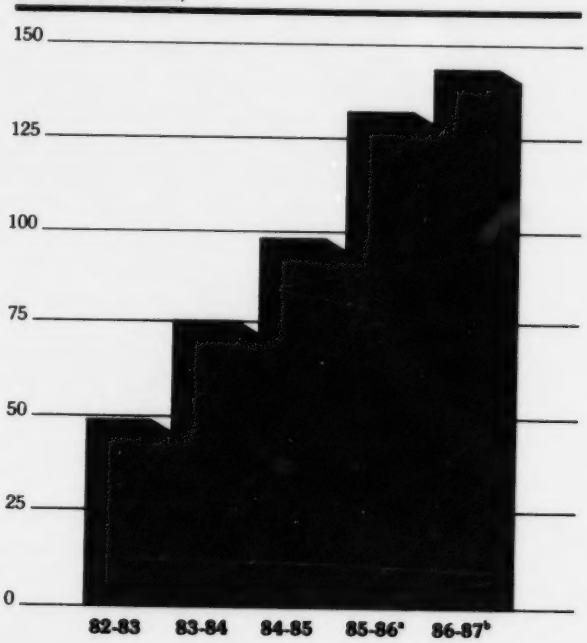
The key to job creation is the private sector, not make-work projects or government "quick fixes". And just as the private sector must adapt to the changing world economy, so too must our labour force. Today and especially in the future, the right education is essential to securing jobs. Albertans will need to be well educated to compete in the rapidly changing and increasingly sophisticated world economy.

This government provides high-level support for education. The 4% basic grant increase exceeds inflation. For 1986-87 per pupil grants to school boards will increase in total by $38 million to over four-fifths of a billion dollars. An extra $5 million will be provided to begin development of the important high school "New Basics" curriculum initiatives.

Our self-governing post-secondary education institutions will receive basic operating grants of $658 million. Five million dollars in funding will be provided for contemporary new courses and the operation of new facilities. Special enrolment funding for post-secondary institutions will reach $21 million in 1986-87, an increase of 13%.

To ensure that financial problems do not deter young Albertans from attending higher learning institutions, this government provides student financial assistance beyond compare anywhere in Canada.

Financial Assistance to Post-Secondary Students
(millions of dollars)



[a] Forecast
[b] Estimate

For 1986-87, $143 million is budgeted for student financial support and $40 million in new student loans will be guaranteed.

Through our top-ranking support for education and training, we invest directly in our most important resource – people.

Albertans have access to top-quality health care services. Policies to reduce health costs are working.

The provision of one of the finest health care systems in the world is another reflection of this government's commitment to people.

That commitment is expensive. For 1986-87 this budget provides $2.3 billion to cover both the operation of our health care facilities and the services of health care professionals. Including capital expenditure, this amounts to about $1,100 for each Albertan.

The operating expenditure associated with our modern hospitals and nursing homes will total $1.7 billion in 1986-87. Over the last few years, we have been working with trustees, hospital administrators and citizens to reduce the rate of health cost increases. That hard-fought campaign is working.

After a two-year freeze in doctors' benefit schedules, this year the fee schedule is increased by 3.7%.

Again this year there are no increases in health care premiums. It marks the third budget without a premium increase. The total cost of medical services is $831 million; less than 25% is paid for by premiums. To meet the deficit of the Health Care Insurance Fund, over half a billion dollars in funding is provided from budgetary revenue.

Community health programs are an important part of Alberta's total health care assistance package. Local health units will receive a basic grant increase of 3%, plus an additional $7.3 million for specific needs, including home care. The overall budget for community health programs will be $214 million.

This government stands by those Albertans who are less fortunate by providing the widest range of assistance programs in Canada.

We continue our comprehensive support to those Albertans who are disadvantaged and require special assistance.

Support for the Assured Income for the Severely Handicapped Program will increase by 13%. Funding for the Day Care Operating Allowance and Day Care Subsidy Programs will increase by 14%. Funding for the Family and Community Support Services Program will jump by 25%. The total budget for all social service programs will rise to $1.1 billion.

1986-87 will see the first full-year operation of the Alberta Maintenance Enforcement Program at a budgeted cost of $3 million. An additional $1 million will be set aside for emergency shelters for women. Legal aid is targeted to receive a 14% increase. The new Impaired Drivers – Repeat Offenders Program will receive $2 million.

Uniquely, Alberta widows and widowers of limited means between the ages of 55 and 64 are eligible for all senior citizen programs. In addition, we provide a pension to those widows and widowers who are in need at an estimated cost of $16 million in 1986-87.

To assist in ensuring the availability of shelter at affordable rates, this year the government will provide $334 million in various forms of selected housing assistance to Albertans in need.

Older Albertans form an ever-increasing proportion of the population. They should be able to live with dignity. Unparalleled health, shelter and income support benefits are provided.

We pledge to ensure that our elderly, who have contributed so much, are able to live with dignity. The programs offered by this government are without equal in Canada:

- premium-free health coverage and other health benefits,
- assured annual income,
- social allowances for the elderly,
- property tax rebates and renter assistance grants,
- self-contained and lodge accommodation,
- special home heating grants, and
- home improvement grants.

Every year the average age of Albertans goes up. We recognize this long-term trend and invite Albertans to be partners with us as they move toward retirement.

I am pleased to confirm three enhanced initiatives to assist seniors:

- The job-creating Seniors' Home Improvement Program, scheduled to terminate this year, will now be extended to the end of 1989 with additional grants of $48 million.
- The successful and cost-effective Home Care Funding Program will receive total funding of $33 million, an 18% increase.
- Nursing home quality improvements will total $18 million, an increase of 16%, and 600 new nursing home, auxiliary and lodge spaces will be provided.

Overall, this government will provide approximately $830 million in benefits to our senior citizens in 1986-87.

A partnership approach between the provincial and municipal governments will benefit all Albertans.

The Alberta government works in tandem with local governments to advance the province's economic and social development. We are elected to serve the same citizens. We want a partnership of joint action in such areas as transportation, social services, community health, libraries, parks and policing.

In 1986-87 our unconditional grants to municipalities will increase by 4% to $102 million. Interest relief on municipal debt is budgeted at $120 million. The new, 7 to 9 year, $500 million Alberta Municipal Partnership in Local Employment Program is one-of-a-kind in Canada. It will create jobs and reduce pressure on property taxpayers. In total over $768 million in provincial support will be provided this year to local governments and local service agencies for a wide variety of services.

We are conducting a priority review of our municipal funding policy. The goal – to make more of that funding unconditional.

Municipalities will also benefit from the new Fines Collection Program. Outstanding fines from parking tickets and traffic offences will be automatically added to the bill payable by vehicle owners and drivers when they renew their vehicle registrations or drivers' licences. An additional $4 million is expected to flow to municipalities from this initiative.

Our operating budget for people programs in 1986-87 is targeted at over $3,800 per Albertan.

To summarize: our spending on operating programs that directly assist the almost two and one-half million Albertans is budgeted at $9.1 billion for 1986-87. This represents a 6% increase over last year's revised forecast, or a 9% increase over the comparable estimates. It ensures that Albertans will continue to have available high quality hospital and medical services and educational instruction at all levels. It also provides generous benefits for seniors and those in need.

The capital budget, combined with the additional building activity flowing from the Heritage Fund and Crown corporations, will generate thousands of jobs for Albertans.

This year our capital budget is targeted at $1.5 billion. Also, over $330 million will be provided for construction projects from a new capital fund. Additional capital funding of $205 million will flow from the Heritage Fund and the capital construction activity of Crown corporations is expected to reach $740 million in 1986-87.

This overall level of capital activity, involving $2.8 billion, occurs at an appropriate time as construction costs remain reasonable. It will provide thousands of new and continuing jobs; the resulting incomes will strengthen the economy.

We provide cities and rural areas with state-of-the-art hospital facilities. Our education facilities are among the most modern anywhere.

For the last several years, Alberta has financed its hospital and post-secondary education construction on a "pay-as-you-go" basis. This was the appropriate policy in times of surpluses.

Now, with our budgetary position less certain, it makes sense to return to the debenture financing system. Similar to home mortgage financing, it simply means that the cost of projects is spread over their useful lives. Most provincial governments use debenture financing and we have always financed schools this way. The change will in no way affect the continuing efficient operation of our hospital boards or the boards of our self-governing educational institutions.

To implement this return to debenture financing, legislation will be introduced to create a capital fund.

Albertans enjoy the most modern and efficient hospitals in Canada. State-of-the-art facilities and quality hospital care are provided in cities and rural areas. Since our major expansion program started, projects have been approved in 38 communities outside Edmonton and Calgary – another example of our commitment to quality of life for all Albertans. The total operating cost of all rural hospitals is only 21% of the total provincial hospital operating budget.

We have given the green light to the Northern Alberta Children's Hospital. Funds will be provided in this year's budget for planning purposes.

For 1986-87 the province will provide $281 million in capital construction funding for health care. Approximately $83 million will be made available for the continuing construction of the two urban hospitals in Edmonton and Calgary. Rural hospitals will receive capital support in the amount of $93 million. To keep our hospital system up-to-date with technological advances, a further $28 million is provided for equipment.

Alberta's educational facilities are among the best in the world. This year our universities, colleges and technical institutions will receive total provincial capital support of $52 million to fund the construction of 19 new and previously approved projects on 12 campuses throughout Alberta.

I am pleased to confirm that $80 million will be made available over the next five years for a new and revised Advanced Education Endowment Fund. The new fund will continue our generous program of grants to match donations to our public post-secondary institutions.

For the basic Grade I-XII education system, we are budgeting $154 million for capital debt retirement. Ten million dollars is planned to assist schools to purchase new equipment.

Alberta's exciting and high-quality recreational and cultural facilities are a major attraction for Albertans and their visitors.

Ours is an activity province with much to offer Albertans and visitors alike. Our citizens enjoy a comprehensive and growing inventory of parks and other recreational facilities.

In its second year, the streamlined Commu-

nity Recreation/Cultural Grant Program has a budget of $48 million.

Calgary will host the world for the exciting 1988 Winter Olympics. This much prized winter sporting event will focus the attention of the world on Alberta. We will capture this once-in-a-lifetime opportunity to expand our tourism and export potential. In this budget, the province will provide $19 million in capital support as part of our total planned Olympic capital commitment of $128 million. Construction is on time and on budget.

The new Tyrrell dinosaur museum in Drumheller is a stunning success that brings Alberta's past to life for all, particularly our young people. This year $7.5 million is targeted for other historical sites and facilities.

This government has developed an efficient transportation system which links all parts of the province and spurs economic growth.

Our farm-based communities are supported by a well maintained and comprehensive transportation network. That road system also spurs economic development and enables Albertans and tourists to experience all areas of the province.

This year more than three-quarters of the Transportation department's nearly $680 million capital budget will go toward the construction and maintenance of highways. A program which will assist local jurisdictions in financing improvements to local resource roads is being introduced. Funding is also provided to begin widening the highway from Edmonton to Ft. McMurray. Our progressive commitment to the twinning of Highways 1 and 16 will be continued.

To assist our urban centres in coping with modern transportation challenges, $127 million in capital support is included in this budget. Total capital support from the province to Edmonton and Calgary over the past 10 years exceeds $820 million.

Alberta's communities have a better quality of life as a result of this government's support of utilities and public works.

Utilities, like transportation, are essential for economic and social development. In this budget, $77 million in capital support is directed to water and sewer programs which, since their inception in 1979, have assisted 370 communities through a total investment of $740 million.

The Rural Gas Program will receive a budget of $21 million. Since its start in 1973 over 89,000 farms and other rural customers have been helped through grants totaling $277 million.

The expansion of the Extended Flat Rate Telephone Program from 34 to 40 miles will provide new convenience to thousands of Albertans.

This year our public works budget will provide $195 million for a wide range of projects, more than two-thirds of which will be in smaller centres.

Heritage Fund capital projects are investments in the future of the province.

To start a new tourism and recreation initiative and continue or complete other projects, Heritage Fund investments of $205 million will be recommended this year.

Over $100 million will enable work to continue on major irrigation projects, agricultural research, grazing reserves and flood control. To date, close to half a billion dollars has been invested in these areas.

Jobs and tourism opportunities will result from the new, four-year, ten million dollar Municipal Recreation/Tourism Areas Program. This brand new Heritage Fund initiative will see 100 recreation areas established over the life of the program.

With an estimated expenditure of close to $17 million, parks in Alberta's major centres and our unique provincial mountain park, Kananaskis Country, will be virtually completed this year.

Future-oriented oil sands and enhanced oil recovery research will receive $66 million from the Heritage Fund and the province's general revenue.

Support for health care, including cancer research and the world-class Walter C. Mackenzie Health Sciences Centre, is planned to exceed $38 million.

Funding will also continue for reforestation, land reclamation, and electronics research and testing.

All of these Heritage Fund projects will provide new jobs and will retain existing jobs.

The activities of Alberta's major Crown corporations will help create jobs for Albertans.

Alberta's five major Crown corporations will make capital commitments totaling $911 million in 1986-87. This will result in direct capital construction activity of approximately $740 million in 1986-87, creating and maintaining employment for Albertans.

The Alberta Mortgage and Housing Corporation will provide direct funding for the construction of 680 rental housing units primarily for senior citizens and low to middle income Albertans. Under the Family Home Purchase Program, the corporation will commit $4.5 million to finance the construction of 75 new housing units for low and moderate income families.

An estimated $380 million in capital projects undertaken by cities, towns, school boards and other local entities will be financed through the Alberta Municipal Financing Corporation. Because these loans will be provided at our comparatively attractive borrowing rate, local authorities and Alberta property taxpayers will receive significant cost savings.

During 1986 Alberta Government Telephones will continue to expand and improve its telecommunication services to Albertans and will also maintain its world-class position by making capital expenditure of $231 million.

This government is deeply concerned about the unemployment situation. We will continue to help our jobless citizens find meaningful, long-term work.

Our high level of support on the job-creation front is unparalleled.

In the fall of 1984 we launched a massive quarter of a billion dollar package of new and enriched employment and training initiatives. The following table identifies the nearly two dozen programs which will receive a funding commitment of $178 million in 1986-87.

1986-87 Training and Employment Programs

Apprenticeship Training and Trade Certification Program
Alberta Vocational Training Program
Federal-Provincial Cost Shared Vocational Training Program
Vocational Rehabilitation of Disabled Persons Services
Private Vocational Schools Support
Alberta Youth Employment and Training Program
Alberta Wage Subsidy Program
Alberta Training Program
Summer Temporary Employment Program (STEP)
Priority Employment Program (PEP)
Alberta Environment Employment Program
Alberta International Marketing Employment Program
Employment Skills Program
Quebec/Alberta Student Exchange Program
Special Placement Work Experience Program
Hire-A-Student Program
Opportunity Corps Program
Employment Counselling and Relocation Program
Settlement Services
Rural Housing Assistance Program
Career Centres
Career Information Services

Total Funding Commitment in 1986-87 – $178 million

Our capital building program will maintain and create thousands of jobs for Albertans. The following table outlines the capital activities supported by government departments, the Heritage Fund and Crown corporations. During the period 1984 to 1987, capital expenditure tied directly to job creation will total over seven billion dollars.

Job-Creating Capital Activities
(millions of dollars)

	1986-87 Estimate	1985-86 Forecast	1984-85 Actual
Transportation	666	703	641
Hospitals and Medical Care[a]	281	237	197
Education and Advanced Education[a]	155	152	158
Public Works, Supply and Services	195	159	146
Utilities	97	81	88
Recreation and Parks	50	39	49
Environment	75	48	30
Agriculture	8	8	7
Forestry	12	10	9
Heritage Fund – Capital Projects Division	205	248	228
Crown Corporations	740	602	835

[a] Figures presented include the total value of capital construction supported through the capital fund and debt servicing programs.

This government also boosts employment through programs that strengthen our dynamic small business sector which is the major employer in Alberta. These innovative programs include

- one of the lowest small business tax rates in Canada, including a five-year tax holiday for small manufacturing and processing businesses,
- the Alberta Opportunity Company which provides alternative financing to small businesses,
- the Alberta Small Business Equity Corporations Program which stimulates reinvestment in Alberta of privately owned and managed capital,
- the Export Guarantee Program,
- the Farm Implement Dealers Guarantee Program which, through government guarantees, encourages chartered banks to extend loans and
- the Alberta Agricultural Development Corporation which extends loans to agribusinesses to encourage local processing of our primary products.

In addition, the province indirectly creates jobs using strategies that promote investment by providing a stable environment and offering needed incentives. Investment in Alberta is assisted by having fiscal and economic policies that are known and understood. A stable economic environment is also made possible by our unique Heritage Savings Trust Fund. Investment is stimulated by such incentives as the new Alberta Stock Savings Plan.

Jobs in the future will result from the wide range of technological building blocks that we have put in place or assisted recently.

Job-Creating Research and Technology Activities

Chembiomed Ltd.
Global Thermoelectric Ltd.
Centre for Frontier Engineering Research
Supercomputer Centre
Vadnore Enterprises Ltd.
Myrias Research Ltd.
Alberta Telecommunications Centre
Microchip Design and Fabrication Facilities
Alberta Laser Insitute
General Systems Research Ltd.
Nortech Ltd.
Electronics Test Centre
Biotechnology Toll Facility
Transportation Institute
Alberta Research Council Joint Ventures
Siemens Canada Ltd. LRT Technology
Alberta Heritage Foundation for Medical Research
Cancer Research
Heart Disease Research
Alberta Oil Sands Technology & Research Authority
Farming for the Future
Food Processing Development Centre
Alberta Stock Exchange Computer System
LSI Logic Ltd.

With these employment programs, the capital budgets and student financial assistance mentioned earlier, Alberta leads the nation in programs to assist young people and stimulate jobs.

While this budget contains the largest job effort in the history of the province, the real creator of permanent jobs is the private sector.

Taxation – The Lowest Rates in Canada

In this budget there are no new taxes nor any increases in existing tax rates. This is not the time to impose tax hikes on our citizens. The economy must have breathing room to continue to expand; we want to maximize available consumer dollars. Jobs will be encouraged through investment if taxes are kept low.

Alberta individuals and businesses continue to enjoy the most favourable tax environment in Canada. This assists in the retention of existing jobs and creation of new employment as well.

Albertans pay the lowest personal income tax rate in Canada. Unlike residents of other provinces, we pay no sales tax and no payroll tax. Albertans also pay no gasoline tax. This has allowed our citizens to take home more of their paycheques than other Canadians. In dollars and cents, this means a family in Alberta would have at its disposal $1,475 more, after provincial taxes, than a comparable family in Ontario.

Comparison of Take Home Pay After Provincial Taxes
(for a family of four with a gross income of $30,000)

$26,631 **$28,106**

Alberta businesses also benefit from the most attractive tax structure in Canada. This government views the corporate tax system as a tool to encourage private sector risk-taking and to create jobs. Last year's manufacturing and processing rate reduction broadens the economy. The small business simplification initiative eases the paper burden. Both these measures mean that approximately $75 million per year remains with Alberta businesses.

Earlier this year we introduced the new Alberta Stock Savings Plan which will also broaden the economy and create jobs. Clearly, Alberta has one of the best investment environments in North America.

Major Provincial Tax Rates[a]

	Personal Income Tax		Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Care Premiums		Corporate Income Tax		Capital Tax	Payroll Tax
	Basic Rate	High Income Surtax				Individual	Family	Small Business Rate	General Rate		
	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($)	($)	(%)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	8.56	0.86	204	432	8	16	0.2	—
Alberta	43.5	—	—	—	0.37	168	336	0/5[b]	5/11[b]	—	—
Saskatchewan	50.0	12.0	5	—	1.02	—	—	0/10[b]	17	0.5	—
Manitoba	54.0	20.0	6	8.90	0.78	—	—	10	16	0.2	1.5
Ontario	50.0	3.0	7	8.30	0.68	357	714	0/10[c]	14.5/15.5[c]	0.3	—
Quebec	70-85	—	9	13.65	1.13	—	—	3	5.5/13[d]	0.45	3.0
New Brunswick	58.0	—	11	9.70	0.94	—	—	5/9[e]	15	—	—
Prince Edward Island	52.5	—	10	9.50	0.38	—	—	10	10	—	—
Nova Scotia	56.5	—	10	9.70	0.60	—	—	10	15	—	—
Newfoundland	60.0	—	12	10.90	1.20	—	—	10	16	0	—

[a] As of April 1, 1986.

[b] The lower rate applies to income from manufacturing and processing. In Saskatchewan, the 0% rate also applies to the first two taxation years of new small businesses.

[c] The 0% rate applies to the first three taxation years of new businesses. The 14.5% rate applies to income from manufacturing and processing, mining, logging, farming and fishing.

[d] The 5.5% rate applies to all active business income.

[e] The 5% rate applies to small businesses with income of $100,000 or less.

Revenue – A Moving Target

For the 1986-87 fiscal year, our total tax revenue is estimated at $2.7 billion. Even though Alberta has the lowest tax rates in Canada, taxation will account for approximately one-third of our budgetary revenue inflow.

With current volatile world oil prices, non-renewable resource revenue is impossible to forecast with any precision.

The estimated total of non-renewable resource revenue is comprised of many variable components: the prices and volumes of crude and synthetic oil, and domestic and exported natural gas; proceeds from bonuses and sales of Crown leases; royalty rates and the exchange rate.

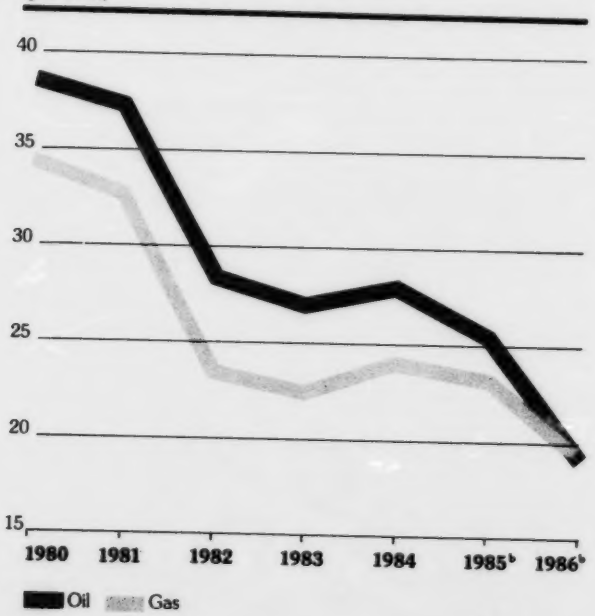
As I stated last year, events half way around the globe can have a direct impact on Alberta's finances. With the combination of volatile world oil prices and energy deregulation in Canada, it is impossible to predict with any precision non-renewable resource royalties over the next four quarters of the fiscal year.

In the past, the relative stability of world oil prices enabled me to estimate resource revenue based on reasonably predictable oil and natural gas

prices, volumes and activity levels. That is not practical this year. Accordingly, the most realistic general estimate at this time is that total non-renewable resource revenue to the province over the next twelve months will be approximately one-third lower than last year.

The cost of the significant incentive packages we announced last June and earlier this month are contributing factors in the expected decline in our resource revenue. Generous new oil and gas holidays are in place, the major enrichment to the Royalty Tax Credit began the first of this month and our royalty rates are being phased down. Since 1980 we have reduced our net royalty rates from about 35% to 20%.

Average Net Crown Royalty Rates[a]
(per cent)



[a] Net of royalty holidays, relief and rebates, gas cost allowance, low productivity well allowance and royalty tax credit.

[b] Estimate

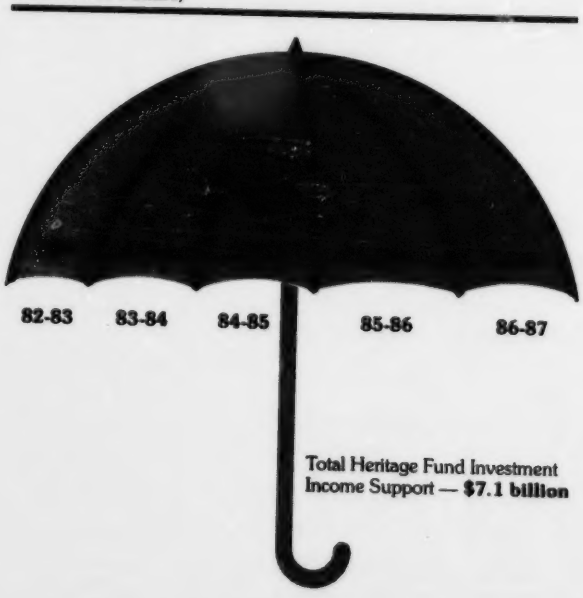
The Heritage Fund umbrella continues to shield Albertans.

Helping to protect us from the skittish world energy situation is the Heritage Fund. Every dollar of investment income from the Heritage Fund will be used to assist in creating jobs, operating hospitals, paying for medical services, running our education system, providing benefits to seniors and generally cushioning Albertans from the effects of the current internationally generated problems.

In 1986-87 income from the Heritage Fund will total almost $1.5 billion. This will be about 17% of total budgetary revenue during the year, enough to pay the costs of people services and facilities for almost two months.

Since 1982 – when the Heritage Fund umbrella was first brought out and opened – through

Heritage Fund Support for Jobs and for Social and Economic Programs
(millions of dollars)



to the end of this fiscal year, the Fund will have provided a total of over $7 billion in protection and stability to Albertans in all walks of life.

To get a more complete picture of the province's revenue position, resource revenue transferred to the Heritage Fund should be included.

I am estimating overall budgetary revenue at $8.5 billion which is 14% below the revised forecast for 1985-86. However, this does not account for all the revenue which is expected to flow to the government. The Heritage Fund receives 15% of resource revenue. In 1986-87 this Heritage Fund resource revenue is estimated at $440 million, bringing the combined revenue of the province to $9.0 billion in 1986-87.

Financial Plan – Realistic and Manageable

In past years, the province's budgetary transactions have been separated from Heritage Fund transactions. The purpose was to distinguish between day-to-day budgetary operations, and the long-term savings and economy-broadening objectives of the Heritage Fund. This year I am combining the revenue and expenditure of the two funds to provide an overall picture of the province's financial position.

Let me recap our revenue and expenditure estimates. Budgetary expenditure is estimated at $10.7 billion which, together with Heritage Fund outlays on capital projects of $205 million, brings

Summary Financial Plan
(millions of dollars)

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Combined Revenue				
Budgetary				
General	7,050	8,213	8,175	8,547
Heritage Fund Investment Income	1,465	1,680	1,694	1,575
Heritage Fund Resource Revenue (15%)	440	671	677	719
	8,955	10,564	10,546	10,841
Combined Expenditure				
Budgetary				
Operating	9,121	8,603	8,365	7,548
Capital	1,533	1,630	1,700	1,531
Heritage Fund Capital Projects	205	248	287	228
	10,859	10,481	10,352	9,307
Combined Surplus (Deficit)	(1,904)	83	194	1,534

combined expenditure to $10.9 billion in 1986-87. Budgetary revenue is estimated at $8.5 billion and Heritage Fund resource revenue is estimated at $440 million. The combined revenue of the province's two major funds is, therefore, $9.0 billion. As a result, I am expecting a combined deficit of $1.9 billion in 1986-87.

While this is a large deficit, it should be remembered that Alberta moved from a combined deficit of $1.1 billion in 1982-83 to a combined surplus exceeding $1.5 billion in 1984-85.

The deficit is manageable given our unique financial strength. We enter 1986-87 with an accumulated budgetary surplus of over $900 million and $12 billion in income-earning assets in the Heritage Fund. Our per capita debt levels are by far the lowest of all Canadian governments.

Responsible fiscal management in previous years will keep our debt servicing costs down to approximately 2% of revenue in 1986-87.

Summary and Highlights

The highlights of the 1986 Alberta budget are

- no new taxes, no increases in existing low tax rates and no increase in low health care premiums;
- agriculture a priority, with a 77% budget increase and the long-term cost of money stabilized through the new, twenty-year, $2 billion Alberta Farm Credit Stability Program;
- a commitment to the imaginative new $500 million provincial-municipal partnership program and a new Heritage Fund Municipal Recreation/Tourism Areas Program, both of which will stimulate construction and jobs throughout Alberta;
- a three-way boost for our senior citizens through
  - a $48 million extension of the Seniors' Home Improvement Program,
  - major additional funding for home care and
  - 600 new spaces for auxiliary, nursing home and lodge residents throughout Alberta, and major quality improvements to existing nursing homes;
- more than $4 billion in grants, with higher-than-inflation increases of 4% to support basic and advanced education, and hospitals and medical care;
- further broadening of our economy and new jobs through priority support for tourism, forestry, research and technology;
- continued trimming of the public service and further initiatives in privatization and deregulation; and
- a combined deficit of $1.9 billion, with only 2% of provincial revenue to be used to pay interest on debt.

In conclusion, this budget provides steady reassurance to Albertans at an admittedly uncertain time.

Alberta's fast economic recovery in 1985 showed how quickly we can bounce back from temporary adversity.

Agriculture receives priority support through a range of initiatives unmatched by any province. We have responded and will respond as necessary to energy industry problems.

Dozens of programs will help maintain existing jobs and create new employment. As well, benefits from this budget will flow to seniors, students,

workers, taxpayers, women, consumers, small business people and investors.

A responsible fiscal balance is achieved while holding down taxes. Even with a large deficit, our debt costs will be the lowest in the nation.

Living with uncertainty is never easy, but in Alberta, in 1986, we can be reassured in the knowledge that our deep and broadening strengths mean jobs and growth in the opportunity years ahead.

Appendix A

General Revenue Fund

Tables and Charts

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General Revenue Fund

The province has two main funds: the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The General Revenue Fund is the primary operating account of the province. It receives all public money, except money which is already specially disposed of by legislation or money paid in trust to the province. Expenditure from the General Revenue Fund is used to finance the day-to-day operations and programs of government departments. The Heritage Fund is described in detail in Appendix B.

A Guide to the Tables

The annual budget of the province is concerned primarily with the operations of the General Revenue Fund. The term "budgetary" is used to describe revenue or expenditure that affects the net assets of the General Revenue Fund.

The two major categories of budgetary revenue are general revenue and Heritage Fund investment income. General revenue consists of taxes; non-renewable resource revenue; transfers from the Government of Canada; revenue from fees, permits and licences; Alberta Liquor Control Board trading profits; and other miscellaneous revenue. The Heritage Fund investment income category highlights the contribution made to budgetary revenue by the transfer, since September 1982, of all the investment income earned on Heritage Fund assets.

Legislation may direct the transfer of budgetary revenue to another fund. This is shown in the financial statements as a reduction of budgetary revenue. An example is the transfer of 15% of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund.

Budgetary expenditure has two major components: voted and statutory. Voted expenditure relates to appropriations made on authority of supply votes approved by the Legislature, including special warrant requests authorized by the Lieutenant Governor in Council. Statutory expenditure refers to appropriations made on the authority of legislation and relates primarily to public debt servicing costs and revolving funds.

Budgetary expenditure is presented in the tables by functional categories and by departments. The departmental estimates for the current year are further divided into operating and capital components.

Non-budgetary transactions affect the financial assets and liabilities of the General Revenue Fund but, unlike budgetary transactions, do not change the net asset position. Non-budgetary transactions relate primarily to loans and advances to government and private enterprises, the issue and retirement of the province's debt instruments and the purchase and sale of investments by the General Revenue Fund.

Compared to past years, there are two changes in the presentation of the 1986-87 budgetary tables that are of interest to readers.

1. The departmental estimates reflect the cabinet realignment announced in February, 1986. The realignment involved the creation of three new departments: Tourism; Technology, Research and Telecommunications; and Forestry. Prior year departmental figures have been restated where necessary to conform to the 1986-87 presentation.

2. Hospitals and post-secondary education capital construction expenditure which was financed on a pay-as-you-go basis will be debt financed in 1986-87 and subsequent years. Related budgetary expenditure will provide for the repayment of the debt (principal retirement and annual interest costs). A new Capital Fund will be created to provide capital grants to the institutions as construction projects progress. This change in financing policy is reflected in the 1986-87 departmental estimates of Hospitals and Medical Care and Advanced Education. Prior year capital expenditure figures for these departments have not been restated.

General Revenue Fund

Budgetary Revenue and Expenditure

(thousands of dollars)

TABLE A1

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Revenue				
General Revenue				
Taxes	2,717,000	2,558,000	2,682,000	2,552,759
Non-Renewable Resource Revenue	2,445,000	3,668,000	3,702,000	3,942,386
Payments from Government of Canada	1,154,000	1,233,000	1,102,000	1,279,465
Fees, Permits and Licences	189,000	186,000	178,000	203,402
Trading Profits	331,000	325,000	286,000	301,427
Other Revenue	214,000	243,000	225,000	267,563
	7,050,000	8,213,000	8,175,000	8,547,002
Heritage Fund Investment Income	1,465,000	1,680,000	1,694,000	1,575,285
	8,515,000	9,893,000	9,869,000	10,122,287
Expenditure				
Health	2,584,039	2,570,373	2,578,638	2,318,444
Education	2,478,942	2,416,084	2,378,618	2,201,910
Social Services	1,252,017	1,185,439	1,183,252	1,050,259
Regional Planning and Development	306,198	287,350	313,648	289,464
Housing	275,248	306,735	342,340	284,002
Recreation and Culture	193,306	173,113	178,217	177,341
Environment	146,159	119,897	99,717	93,917
Resource Conservation and Industrial Development	1,026,513	1,075,349	741,821	648,630
Transportation and Utilities	1,026,977	1,068,873	1,050,545	949,446
Protection of Persons and Property	442,216	411,421	419,230	385,590
General Government	734,586	740,020	695,492	575,368
Debt Servicing Costs	188,000	51,000	83,000	104,567
Allowance for Unexpended Balances	—	(172,374)	—	—
	10,654,301	10,233,280	10,064,518	9,078,938
Budgetary Surplus (Deficit)	(2,139,301)	(340,280)	(195,518)	1,043,349

General Revenue Fund
Budgetary Revenue
(thousands of dollars)

TABLE A2

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Taxes				
Personal income tax	1,722,000	1,500,000	1,523,000	1,456,652
Corporate income tax	700,000	720,000	820,000	762,099
Tobacco tax	98,000	101,000	101,000	100,169
Other taxes	197,000	237,000	238,000	233,839
	2,717,000	2,558,000	2,682,000	2,552,759
Non-Renewable Resource Revenue				
Gross Non-Renewable Resource Revenue	2,885,000	4,339,000	4,379,000	4,661,125
Allocation to Alberta Heritage Savings Trust Fund	(440,000)	(671,000)	(677,000)	(718,739)
	2,445,000	3,668,000	3,702,000	3,942,386
Payments from Government of Canada				
Canada assistance plan	380,000	406,000	372,000	354,724
Hospital insurance	361,000	362,000	344,000	341,334
Post-secondary education	203,000	206,000	194,000	201,264
Extended health care	106,000	99,000	100,000	94,361
Training of manpower	40,000	45,000	45,000	47,868
Other	64,000	115,000	47,000	239,914
	1,154,000	1,233,000	1,102,000	1,279,465
Fees, Permits and Licences				
Motor vehicle licences	82,000	80,000	79,000	102,228
Land titles	22,000	22,000	21,000	18,836
Timber rentals and fees	16,000	18,000	15,000	18,408
Other	69,000	66,000	63,000	63,930
	189,000	186,000	178,000	203,402
Trading Profits				
Alberta Liquor Control Board	330,000	320,000	285,000	300,000
Other	1,000	5,000	1,000	1,427
	331,000	325,000	286,000	301,427
Other Revenue				
Investment income	85,000	120,000	104,000	140,981
Miscellaneous	129,000	123,000	121,000	126,582
	214,000	243,000	225,000	267,563
Total General Revenue	7,050,000	8,213,000	8,175,000	8,547,002
Heritage Fund Investment Income	1,465,000	1,680,000	1,694,000	1,575,285
Total Budgetary Revenue	8,515,000	9,893,000	9,869,000	10,122,287

General Revenue Fund

Deductions from Income Tax Revenue

(thousands of dollars)

TABLE A3

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Personal Income Tax				
Renter assistance credit	90,000	89,460	89,000	86,164
Corporate Income Tax				
Rental investment credit	1,000	700	2,000	1,374
Allocation to Utility Companies Income Tax Rebates Fund	67,500	65,600	67,000	65,616
Total	68,500	66,300	69,000	66,990
	158,500	155,760	158,000	153,154

General Revenue Fund
Budgetary Expenditure
(thousands of dollars)

TABLE A4

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Legislative Assembly	28,552	26,951	26,951	21,306
Governmental:				
Advanced Education	951,240	932,000	939,369	898,320
Agriculture	434,100	542,775	247,572	214,730
Attorney General	145,981	135,506	134,342	122,741
Consumer and Corporate Affairs	21,868	21,939	24,709	22,437
Culture	59,559	57,791	59,629	66,597
Revolving Fund	32	42	(22)	132
Economic Development	56,865	54,567	69,051	57,410
Education	1,297,179	1,232,286	1,233,181	1,150,967
School Book Branch	301	448	92	(514)
Energy and Natural Resources	101,368	90,348	107,883	67,408
Environment	146,042	119,864	99,735	94,234
Water Resources Revolving Fund	117	33	(18)	(317)
Executive Council	128,654	88,230	86,472	92,949
Personnel Administration Revolving Fund	(4)	6	6	39
Federal and Intergovernmental Affairs	6,973	6,524	6,347	6,554
Forestry	172,745	175,698	161,409	177,138
Revolving Fund	(37)	205	205	—
Hospitals and Medical Care	2,328,098	2,323,984	2,338,940	2,095,752
Housing	275,248	306,735	342,340	284,002
Labour	27,477	25,815	26,608	24,749
Manpower	213,903	235,031	189,823	136,984
Municipal Affairs	377,676	367,269	374,169	353,085
Public Works, Supply and Services	569,201	495,477	553,740	439,395
Revolving Fund	14,388	177	4,802	2,548
Recreation and Parks	133,715	115,280	118,610	110,612
Social Services and Community Health	1,335,261	1,294,025	1,281,832	1,143,984
Solicitor General	250,638	231,490	237,597	217,485
Technology, Research and Telecommunications	64,885	54,740	49,887	43,669
Tourism	39,112	16,372	15,754	10,038
Transportation	850,542	879,425	883,214	799,939
Revolving Fund	8,338	30,134	(5,486)	1,255
Treasury	195,647	183,168	132,347	112,526
Statutory Appropriations	250,601	202,005	150,612	162,532
Utilities	168,096	159,110	172,816	147,984
Gas Alberta Operating Fund	—	204	—	268
Allowance for Unexpended Balances	—	(172,374)	—	—
Total	10,625,749	10,206,329	10,037,567	9,057,632
	10,654,301	10,233,280	10,064,518	9,078,938
Summary				
Voted Appropriations	10,380,695	10,000,026	9,914,327	8,912,995
Statutory Appropriations	273,606	233,254	150,191	165,943
	10,654,301	10,233,280	10,064,518	9,078,938

General Revenue Fund

Operating and Capital Expenditure

(thousands of dollars)

TABLE A5

	1986-87 Estimate		
	Operating	**Capital**	**Total**
Legislative Assembly	27,703	849	28,552
Government			
Advanced Education	860,283	90,957	951,240
Agriculture	424,525	9,575	434,100
Attorney General	143,952	2,029	145,981
Consumer and Corporate Affairs	20,274	1,594	21,868
Culture	54,307	5,252	59,559
Revolving Fund	31	1	32
Economic Development	53,175	3,630	56,805
Education	1,228,124	69,055	1,297,179
School Book Branch	(105)	406	301
Energy and Natural Resources	66,088	35,280	101,368
Environment	68,542	77,500	146,042
Water Resources Revolving Fund	(475)	592	117
Executive Council	127,739	915	128,654
Personnel Administration Revolving Fund	(13)	9	(4)
Federal and Intergovernmental Affairs	6,885	88	6,973
Forestry	161,326	11,419	172,745
Revolving Fund	(43)	6	(37)
Hospitals and Medical Care	2,283,975	44,123	2,328,098
Housing	261,386	13,862	275,248
Labour	27,083	394	27,477
Manpower	213,585	318	213,903
Municipal Affairs	376,247	1,429	377,676
Public Works, Supply and Services	334,714	234,487	569,201
Revolving Fund	(10,100)	24,488	14,388
Recreation and Parks	78,160	55,555	133,715
Social Services and Community Health	1,330,666	4,595	1,335,261
Solicitor General	249,173	1,465	250,638
Technology, Research and Telecommunications	62,016	2,869	64,885
Tourism	37,244	1,868	39,112
Transportation	171,911	678,631	850,542
Revolving Fund	(9,340)	17,678	8,338
Treasury	194,644	1,003	195,647
Statutory Appropriations	210,590	40,011	250,601
Utilities	67,362	100,734	168,096
	9,093,931	1,531,818	10,625,749
Total	9,121,634	1,532,667	10,654,301
Summary			
Voted Appropriations	8,931,089	1,449,476	10,380,565
Statutory Appropriations	190,545	83,191	273,736
	9,121,634	1,532,667	10,654,301

General Revenue Fund

Non-Budgetary Transactions[a]

(thousands of dollars)

TABLE A6

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Receipts				
Repayments of loans and advances				
Government enterprises	56,374	61,524	40,040	55,367
Other	4,209	3,964	2,311	4,670
	60,583	65,488	42,351	60,037
Disbursements				
Loans and advances				
Government enterprises	90,750	129,040	63,400	51,775
Other	23,510	174,125	1,700	10,226
Long-term investments	29,686	35,560	6,236	49,570
	143,946	338,725	71,336	111,571
Net Receipts (Disbursements)	(83,363)	(273,237)	(28,985)	(51,534)

[a] Excludes debt transactions.

General Revenue Fund
Reported Assets, Liabilities and Net Assets*
March 31, 1985
(thousands of dollars)

TABLE A7

	1985	1984
Assets		
Cash and term deposits	648,112	278,648
Accounts receivable	979,680	901,470
Investments - marketable securities	427,942	423,905
Investments - long term	156,252	116,158
Loans and advances to government enterprises	367,258	370,197
Loans and advances - other	45,526	44,680
	2,624,770	2,135,058
Liabilities and Net Assets		
Liabilities		
Accounts and loans payable	911,662	927,100
Unearned revenue and suspense	49,238	69,145
Unmatured debt	398,936	917,228
	1,359,836	1,913,473
Net Assets		
Net assets at beginning of year:		
As previously reported	221,585	287,978
Prior period adjustment	—	(7,019)
As restated	221,585	280,959
Budgetary surplus (deficit)	1,043,349	(59,374)
Net assets at end of year	1,264,934	221,585
	2,624,770	2,135,058
Guarantees and indemnities	465,049	438,012

* Readers should refer to the Public Accounts of Alberta for explanatory notes and supporting schedules.

General Revenue Fund
Change in Unmatured Debt
(thousands of dollars)

TABLE A8

Unmatured debt at March 31, 1985		398,936
Add:		
Issue of promissory notes, net	29,305	
Amortization of discount	1,702	
Other	847	
	31,854	
Deduct:		
Redemption of Treasury bills, net	239,427	
Sinking fund earnings	7,972	
Sinking fund contribution	3,834	
	251,233	
		(219,379)
Unmatured Debt at December 31, 1985		179,557

General Revenue Fund
Guarantees and Indemnities[a]
(thousands of dollars)

TABLE A9

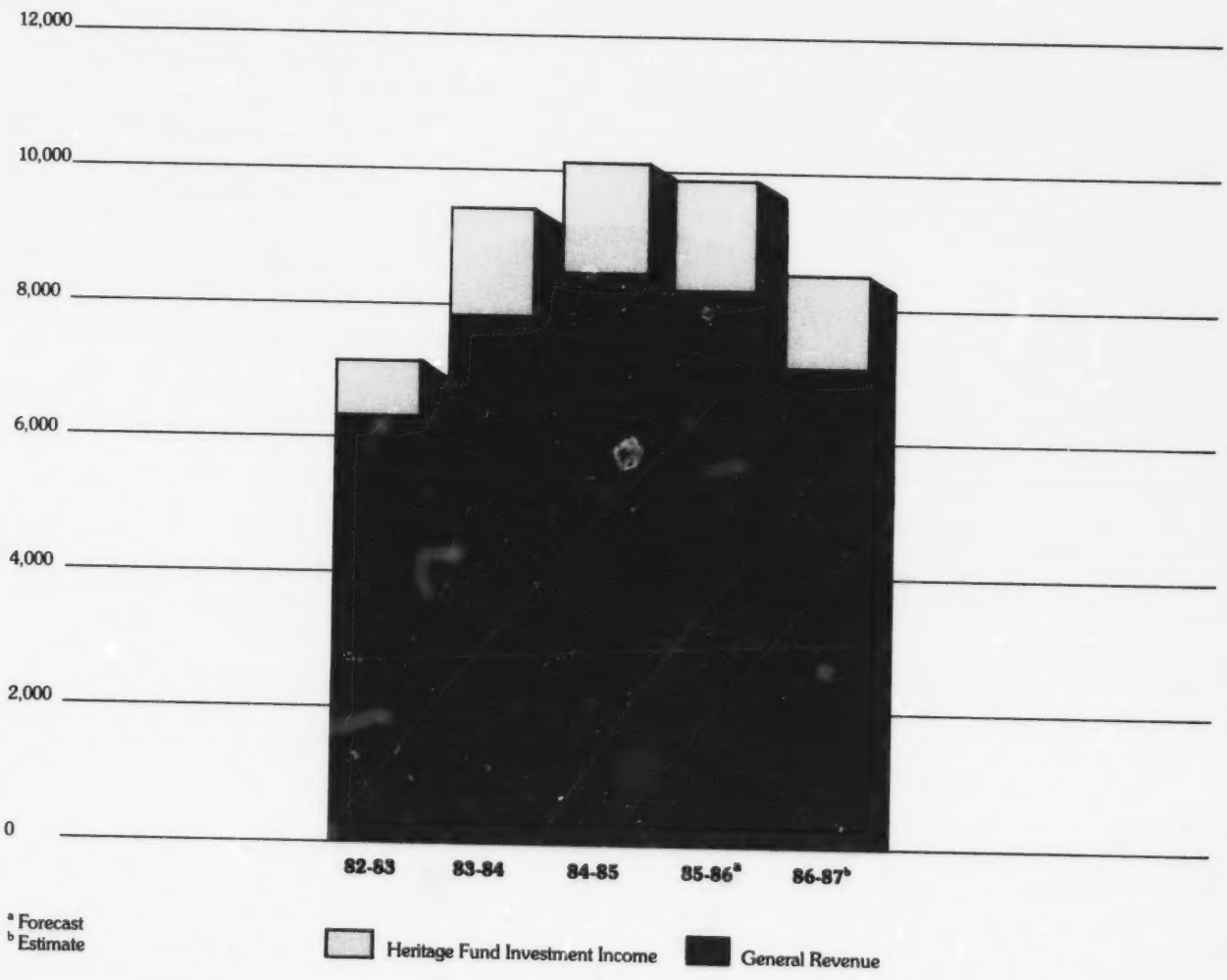
	At December 31	At March 31[b]	
	1985	1985	1984
Guaranteed Debenture Debt			
AEC Power Limited	210,185	220,700	221,690
Vencap Equities Alberta Ltd.	40,000	40,000	40,000
	250,185	260,700	261,690
Guaranteed Loans			
Students Loan Guarantee Act	94,207	91,353	85,253
Agricultural Societies Act	41,427	43,190	15,390
AEC Power Limited	29,214	23,017	16,152
Other	51,078	46,789	50,527
	215,926	204,349	167,322
Indemnities	—	—	9,000
Total	466,111	465,049	438,012

[a] Excludes guaranteed liabilities of government entities.

[b] Readers should refer to the Public Accounts of Alberta for additional details.

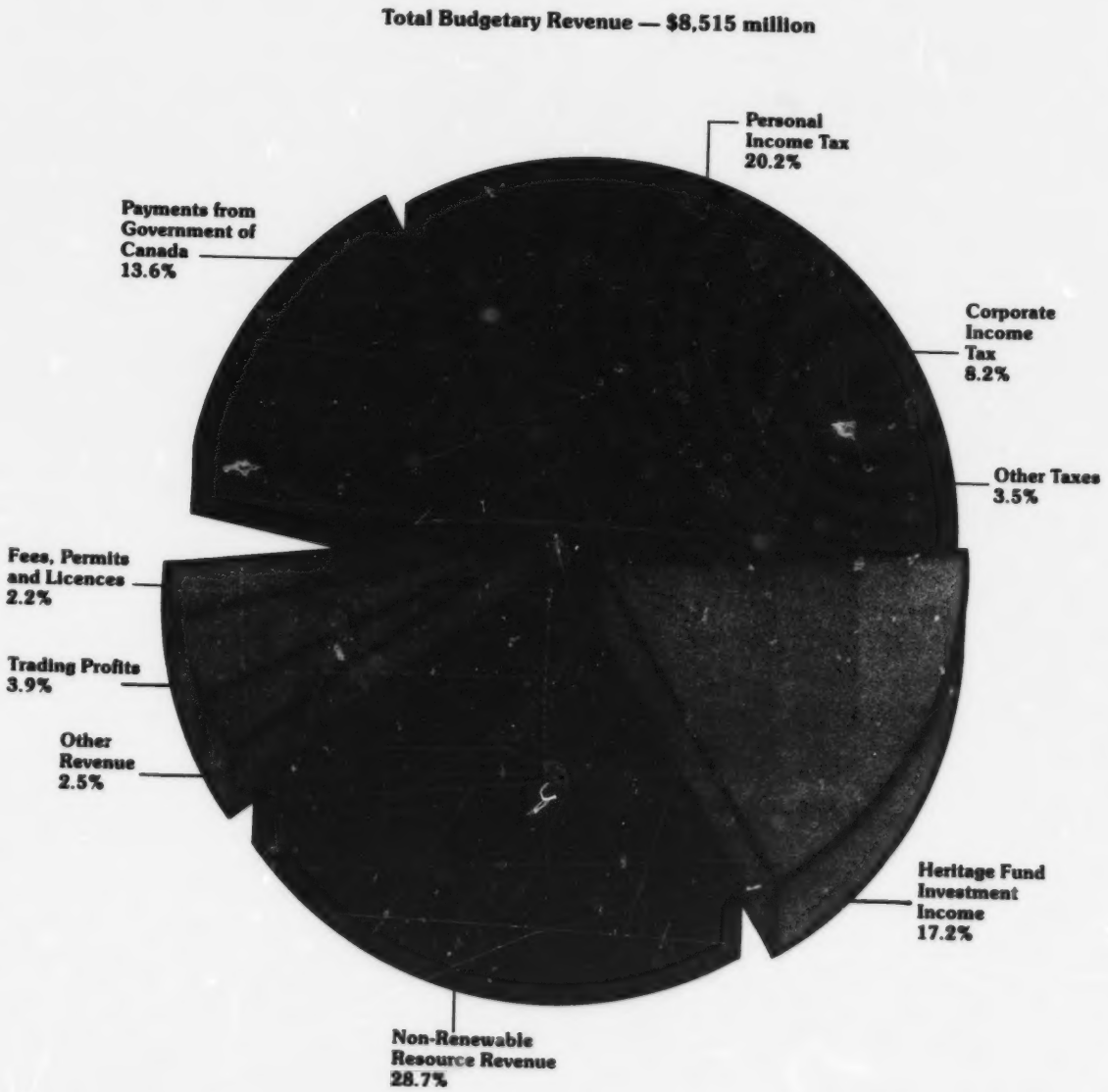
Budgetary Revenue Profile
(millions of dollars)

CHART A1



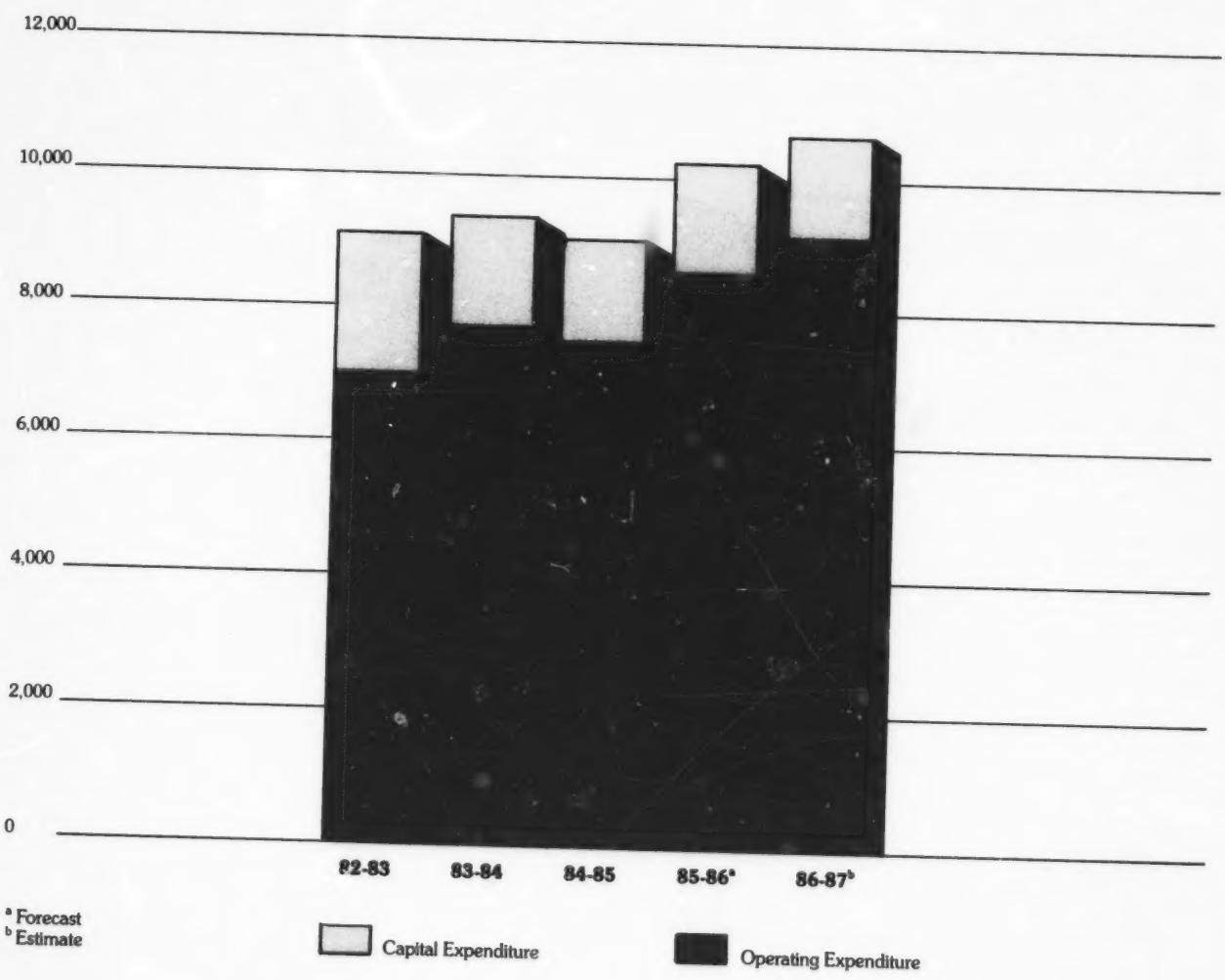
Budgetary Revenue
By Major Source, 1986-87 Estimate

CHART A2



Budgetary Expenditure Profile
(millions of dollars)

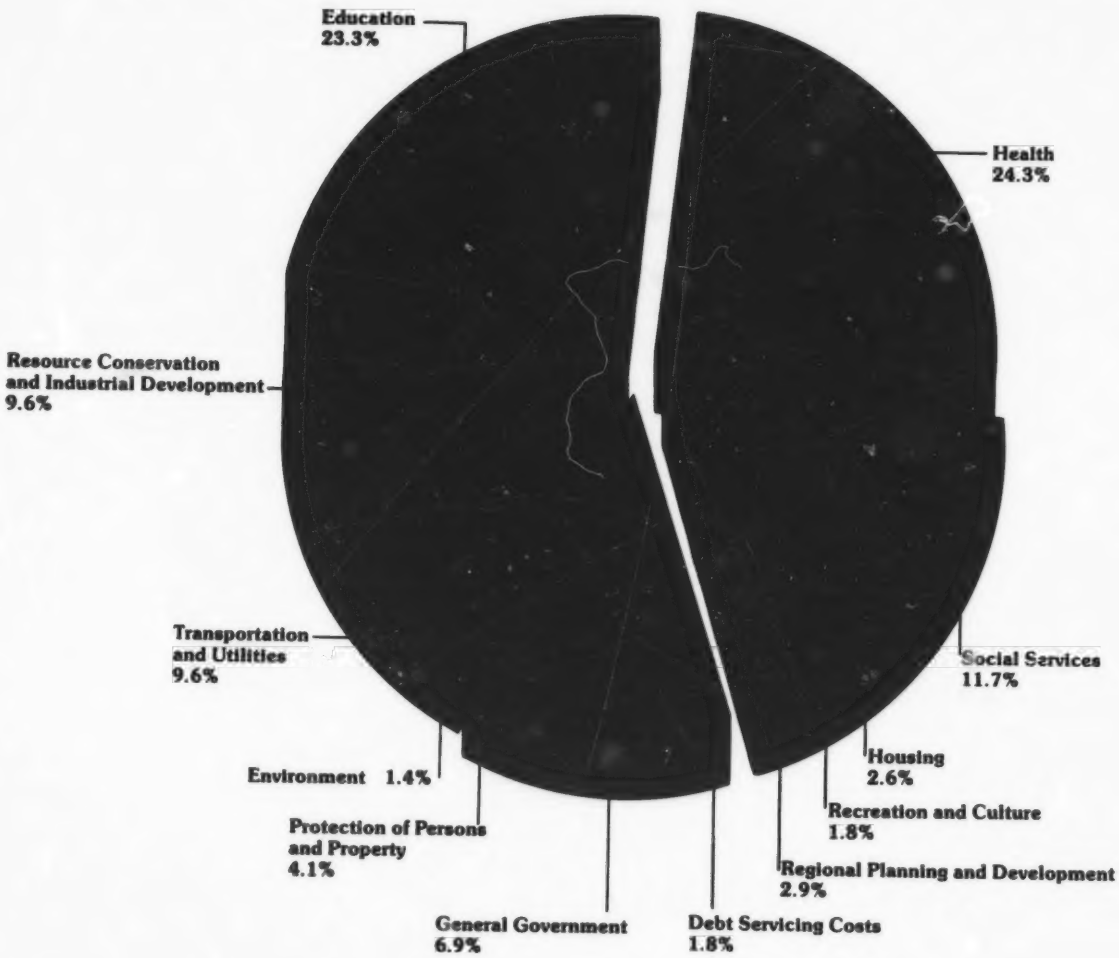
CHART A3



Budgetary Expenditure
By Major Function, 1986-87 Estimate

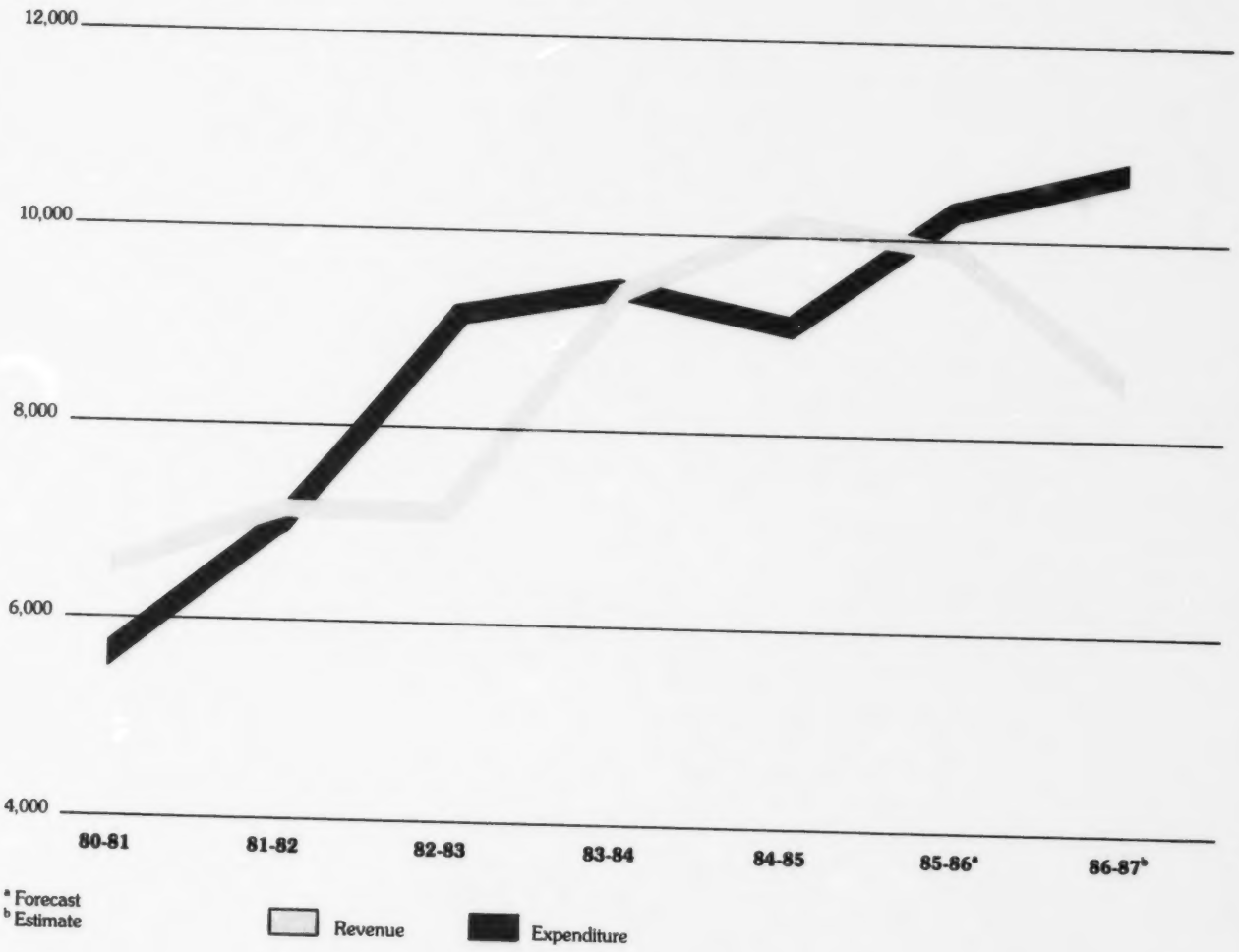
CHART A4

Total Budgetary Expenditure — $10,654 million



Budgetary Revenue and Expenditure
(millions of dollars)

CHART A5



Appendix B

Alberta Heritage Savings Trust Fund

Tables and Charts

Tables

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B2 Sources and Applications of Funds 50

Charts

B1 Alberta Heritage Savings Trust Fund Investment Income 51

B2 Alberta Heritage Savings Trust Fund Financial Assets 52

B3 Composition of Alberta Heritage Savings Trust Fund at March 31, 1986 53

The Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund annually receives a portion of the province's non-renewable resource revenue. From 1976-77 to 1982-83, 30% of resource revenue was transferred to the Heritage Fund. Starting in 1983-84, the transfer was reduced to 15% in response to the province's budgetary requirements.

Since September 1982, all of the investment income earned by the Heritage Fund has been transferred to the General Revenue Fund to help meet budgetary needs, continue the delivery of high quality services to Albertans and fund programs which aid Alberta's economic expansion. The Heritage Fund's net income is estimated at $1,465 million in 1986-87.

The Heritage Fund will continue to be a major source of financing for provincial Crown corporations. A resolution will be presented to the Legislature seeking authority for the Heritage Fund to make investments in three Crown corporations as set out in Table B1.

Capital Projects Division Estimates total $205 million in 1986-87 for 19 capital projects. Table B2 presents the estimate of the Heritage Fund's sources and applications of funds in 1986-87.

In the 1986 calendar year, Alberta Municipal Financing Corporation is expected to continue to meet its capital financing requirements by borrowing from the Canada Pension Plan Investment Fund and in the capital market. Alberta Government Telephones will continue to meet its capital financing requirements in 1986 from market sources.

Alberta Heritage Savings Trust Fund
Proposed Investments in Provincial Crown Corporations
(thousands of dollars)

TABLE B1

	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
Alberta Agricultural Development Corporation	149,500	109,000	171,000	127,000
Alberta Mortgage and Housing Corporation	188,000	185,000	185,000	100,000
Alberta Opportunity Company	33,000	34,000	47,400	35,000
Total	370,500	328,000	403,400	262,000

Alberta Heritage Savings Trust Fund

TABLE B2

Sources and Applications of Funds

(thousands of dollars)

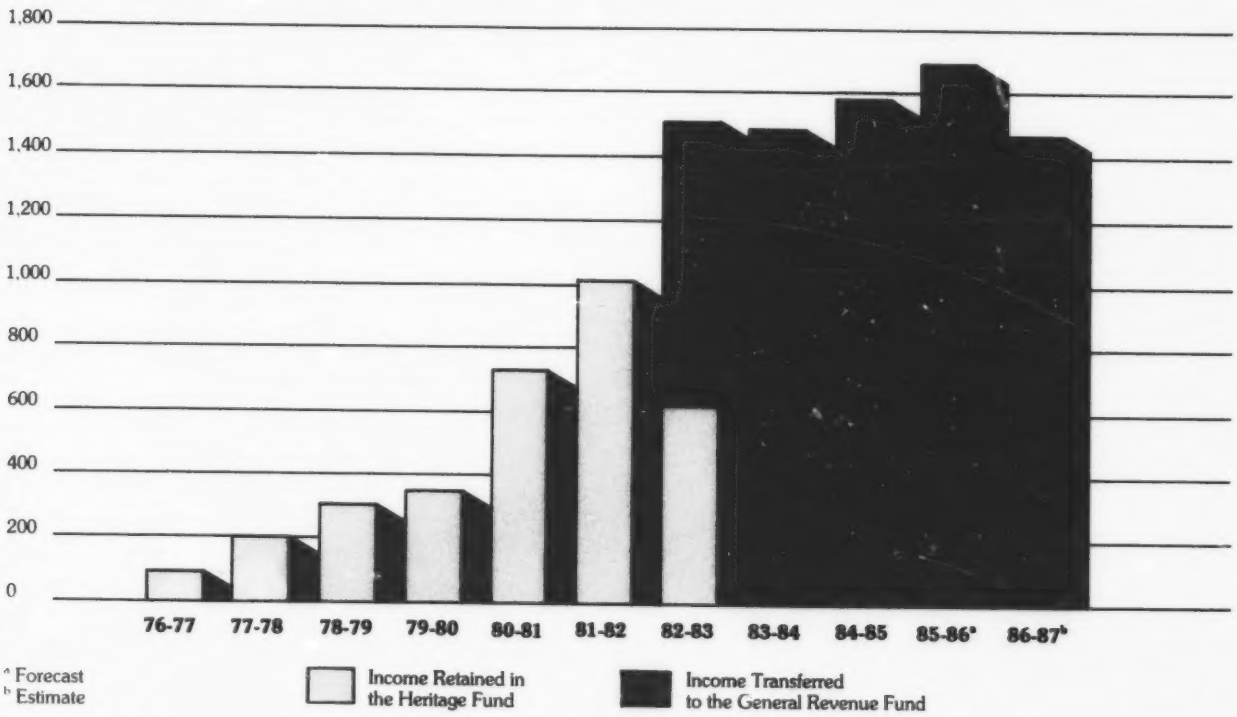
	1986-87 Estimate	1985-86 Forecast	1985-86 Estimate	1984-85 Actual
New Sources of Funds				
Non-Renewable Resource Revenue Transfer	440,000	671,000	677,000	737,198
Net Investment Income	1,465,000	1,680,000	1,694,000	1,577,062
Transfer of Net Income to General Revenue Fund	(1,465,000)	(1,680,000)	(1,694,000)	(1,575,285)
Total Sources	440,000	671,000	677,000	738,975
Applications of Funds				
Capital Projects Division	205,000	248,100	287,200	227,755
Alberta Investment Division				
Alberta Agricultural Development Corporation	149,500	109,000	171,000	127,000
Alberta Mortgage and Housing Corporation	188,000	185,000	185,000	100,000
Alberta Opportunity Company	33,000	34,000	47,400	35,000
Total Provincial Corporations	370,500	328,000	403,400	262,000
Other Investments[a]	18,800	71,000	35,000	51,600
Commercial Investment Division	18,100	17,800	10,000	2,087
Total Applications	612,400	664,900	735,600	543,442
Sources Less Applications	(172,400)	6,100	(58,600)	195,533
Repayments, Maturities and Disposals[b]	589,900	345,000	314,000	288,076
Provision for Non-Cash Items and Administrative Expenses	(3,000)	(44,600)	(5,000)	(45,222)
Decrease (Increase) in Marketable Securities at Cost	(414,500)	(306,500)	(250,400)	(438,387)
	172,400	(6,100)	58,600	(195,533)

[a] Includes investments in Syncrude and other corporate securities.

[b] Excludes Marketable Securities.

Alberta Heritage Savings Trust Fund Investment Income
(millions of dollars)

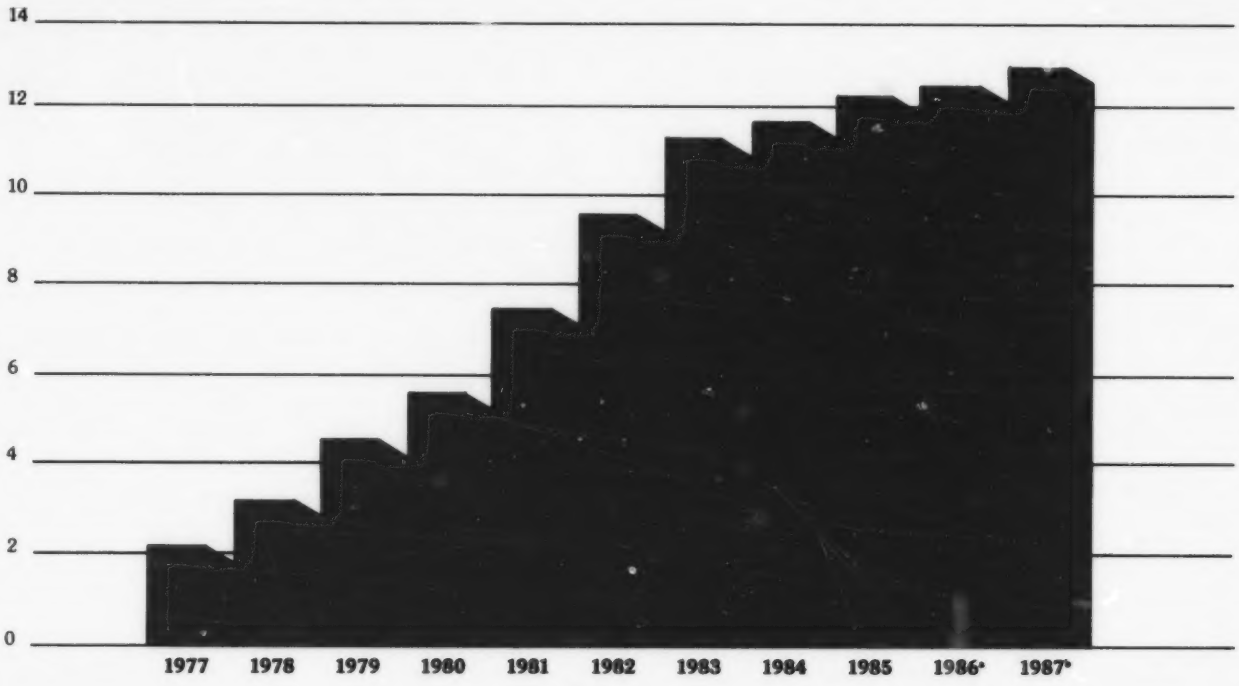
CHART B1



[a] Forecast
[b] Estimate

Alberta Heritage Savings Trust Fund Financial Assets
(billions of dollars)

CHART B2

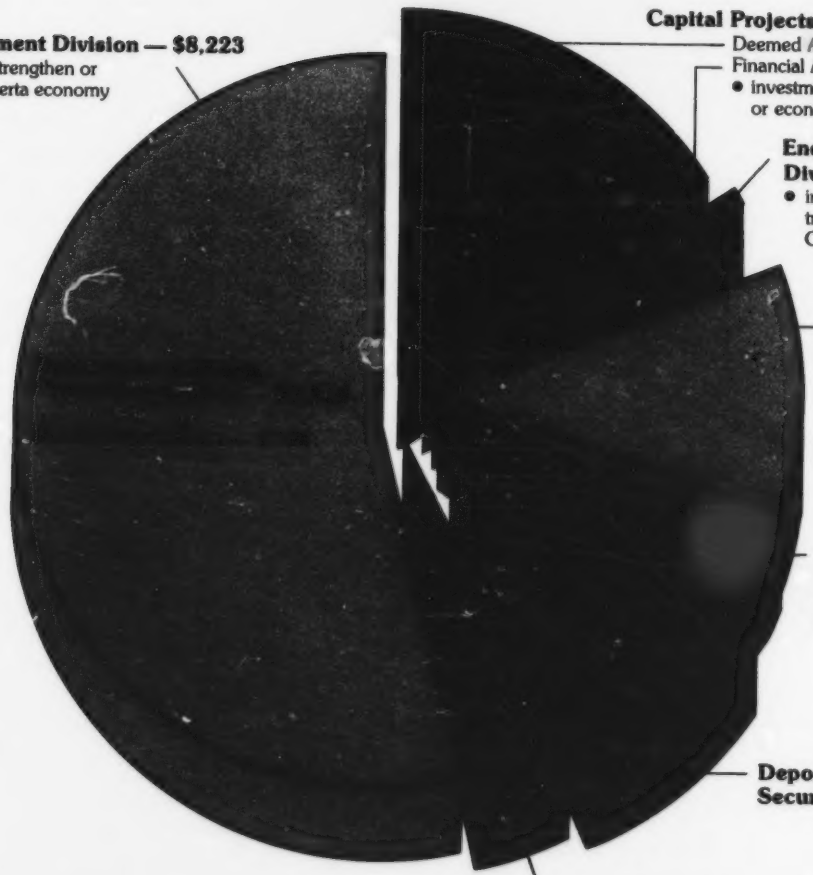


[a] Forecast
[b] Estimate

Composition of Alberta Heritage Savings Trust Fund at March 31, 1986[a]
(millions of dollars)

CHART B3

Total Financial Assets = **$12,697**
Total Deemed Assets = **$ 2,410**
$15,107



Alberta Investment Division — $8,223
- investments to strengthen or diversify the Alberta economy

Capital Projects Division — $2,610
Deemed Assets — $2,410
Financial Assets — $200
- investments for the long term social or economic benefit of Albertans

Energy Investment Division — $19
- investments for the development, transportation and processing of Canada's energy resources

Canada Investment Division — $1,862
- loans to other provinces and entities guaranteed by them

Commercial Investment Division — $219
- investments to yield a commercial return or profit

Deposits and Marketable Securities — $1,717

Accrued Interest and Accounts Receivable — $457

[a] Forecast

Appendix C

Provincial Crown Corporations – Capital Budgets

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C1 Alberta Agricultural Development Corporation 59
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C3 Alberta Opportunity Company 63
C4 Alberta Municipal Financing Corporation 65

Provincial Crown Corporations – Capital Budgets

The 1986-87 capital budgets and financing requirements of four major provincial Crown corporations are contained in this appendix: Alberta Agricultural Development Corporation, Alberta Mortgage and Housing Corporation, Alberta Opportunity Company and Alberta Municipal Financing Corporation. The first three of these corporations receive direct support from the General Revenue Fund enabling them to deliver their programs to Albertans at less than full cost. Details of these contributions can be found in the 1986-87 Estimates of Expenditure.

To carry out their capital programs, approval of the Legislative Assembly will be sought to allow the Alberta Heritage Savings Trust Fund to invest in debt securities to be issued by the Alberta Agricultural Development Corporation, the Alberta Mortgage and Housing Corporation and the Alberta Opportunity Company. These corporations have borrowed from the Heritage Fund in previous years. The Alberta Municipal Financing Corporation will meet its capital requirements by issuing debentures to the Canada Pension Plan Investment Fund and by borrowing in capital markets.

Alberta Agricultural Development Corporation

The Alberta Agricultural Development Corporation provides loans and loan guarantees to farmers and agribusinesses. The corporation's programs are designed to foster the establishment and maintenance of family farms and improvements in their productivity, and to encourage local processing of the province's agricultural products.

During 1986-87 the corporation estimates that it will extend $110 million in direct loans to agricultural producers and agribusinesses. Direct loans are made at preferred rates of interest and some borrowers are eligible for incentive rebates of part of their interest costs.

The corporation's largest program is the Beginning Farmer Program, which makes loans and incentive rebates to individuals whose farms are in an early stage of development. Loans under this program and other direct farm loan programs are expected to total $107 million in 1986-87 while agribusiness loans are estimated to amount to $3 million. Also, the corporation estimates that it will provide $144 million in loan guarantees to farmers and agribusinesses. To finance these activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $149.5 million in debentures of the corporation in 1986-87.

In order to provide incentive rebates and other assistance to its borrowers and to cover operating expenses in 1986-87, the corporation will receive a budgetary appropriation of $114.2 million through the Department of Agriculture.

Alberta Agricultural Development Corporation

(thousands of dollars)

TABLE C1

	1986-87 Estimate	1985-86 Forecast
Programs		
Direct Lending:		
Beginning Farmer and other direct farm loans	107,000	108,000
Agribusiness Loans	3,000	1,000
Total Direct Lending	110,000	109,000
Loan Guarantees:		
General Guarantee Agreements		
Alberta Farm Development Loans	97,000	95,000
Farm Development Loans	30,000	20,000
Specific Guarantee Agreements		
Farm Loans	10,920	10,000
Agribusiness Loans	6,000	25,000
Total Guarantees	143,920	150,000
Financing		
Cash Required for:		
Programs	126,800	114,000
Debenture repayments	25,960	22,280
Operations	14,450	(11,326)
Total Cash Requirements	167,210	124,954
Sources of Financing:		
Loan repayments and guarantee recoveries	17,710	15,954
Alberta Heritage Savings Trust Fund	149,500	109,000
Total Sources	167,210	124,954

Alberta Mortgage and Housing Corporation

The Alberta Mortgage and Housing Corporation's programs are concentrated in two areas: construction of rental housing units for senior citizens and low to middle income Albertans, and mortgage financing to provide affordable rental and ownership housing in the private market for low to middle income Albertans.

Capital commitments for construction and mortgage lending programs will total $125 million for 1,940 units and 300 mobile home stalls in 1986-87. A further $23 million will be committed for land development programs.

Through its housing construction programs, the corporation is expected to make commitments of $39.5 million for 495 senior citizens units in 1986-87. These include apartments for self-sufficient senior citizens and lodge accommodation for seniors who are healthy and active but who no longer wish to maintain an independent household.

Of the corporation's mortgage lending programs, the Family Home Purchase Program provides subsidized mortgages to low and middle income home purchasers. Under this program, the corporation will commit $45 million in 1986-87 to provide 900 mortgage loans for the purchase of existing homes throughout Alberta and for the construction of new housing units in smaller centres.

Under the Modest Apartment Program, the corporation will commit $5.6 million in 1986-87 to provide mortgage loans to builders of 140 rental units in smaller centres of the province. A guarantee program will be established to permit funding of a further 260 units.

The corporation also expects to insure mortgages made available by private lenders on 2,000 mobile homes.

To finance the corporation's capital activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $188 million in debt securities of the corporation.

In addition to its capital funding for 1986-87, the corporation will receive a budgetary appropriation of $208 million through the Department of Housing to meet subsidy and operating costs. The subsidies available through the corporation's programs help make housing affordable for many thousands of Albertans.

Alberta Mortgage and Housing Corporation

(thousands of dollars)

TABLE C2

	1986-87 Estimate	(# units)	1985-86 Forecast	(# units)
Capital Programs				
Housing Construction:				
Staff Housing	1,000	10	400	4
Community Housing	10,000	125	3,500	50
Senior Citizens Lodges	6,500	95	2,200	20
Senior Citizens Self-Contained	33,000	400	12,000	186
Transitional Housing	4,000	50	2,000	25
Total Housing	54,500	680	20,100	285
Mortgage Lending – Home Ownership:				
Alberta Family Home Purchase Program	45,000	900	27,000	620
Rural and Native Housing	15,400	220	6,300	90
Total Home Ownership	60,400	1,120	33,300	710
Mortgage Lending – Rental:				
Modest Apartment Program – Direct	5,600	140	3,000	100
Mobile Home Parks	4,500	300 stalls	—	— stalls
		140 units		100 units
Total Rental	10,100	300 stalls	3,000	— stalls
Land and Development Programs:				
Residential Land Program	6,200	—	2,000	—
Fort McMurray	5,000	—	—	—
Industrial Land Program	1,750	—	—	—
Revolving Trunk Servicing Program	10,000	—	3,200	—
Total Land and Development Programs	22,950	—	5,200	—
		1,940 units		1,095 units
Total Capital Programs	147,950	300 stalls	61,600	— stalls
Other Programs				
Modest Apartment Program – Loan Guarantees	—	260	—	—
Rent Supplement	—[a]	50	—	8
Mortgage Insurance – Mobile Homes	—	2,000	—	1,700
Total Other Programs	—	2,310	—	1,708
Financing				
Cash Required for:				
Capital programs	184,700		70,500	
Debenture repayments	163,300		166,400	
Redemption of short-term notes (net)	18,000		57,000	
Total Cash Requirements	366,000		293,900	
Sources of Financing:				
Mortgage repayments	150,000		110,300	
Land sales	6,000		11,700	
General Revenue Fund budgetary appropriation for debt retirement[b]	8,300		7,600	
Advances from the General Revenue Fund (net)	13,700		(20,700)	
Alberta Heritage Savings Trust Fund	188,000		185,000	
Total Sources	366,000		293,900	

[a] $250,000 in operating costs included in Vote 4, Department of Housing.

[b] Included in Vote 4, Department of Housing.

Alberta Opportunity Company

The Alberta Opportunity Company provides loans, loan guarantees and financial guidance to small businesses throughout the province in order to promote the growth and diversification of the provincial economy. The company provides alternative financing to Alberta businesses with priority given to businesses located outside the major centres.

The company expects to make $22 million in loan commitments to small Alberta businesses in 1986-87. To finance this lending activity and to repay debentures issued in previous years, the Legislature will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $33 million in debentures of the company.

The company will also receive a budgetary appropriation of $13.2 million from the Department of Economic Development in 1986-87. These funds will enable the company to deliver its lending programs at less than their full cost.

Alberta Opportunity Company
(thousands of dollars)

TABLE C3

	1986-87 Estimate	1985-86 Forecast
Programs		
Direct Lending	22,000	19,700
Loan Guarantees	2,000	1,000
Financing		
Cash Required for:		
Direct lending	22,000	24,800
Debenture repayments	39,800	38,800
Operations	4,500	9,600
Total Cash Requirements	66,300	73,200
Sources of Financing:		
Grant from the General Revenue Fund	13,200	9,600
Loan repayments	20,100	29,600
Alberta Heritage Savings Trust Fund	33,000	34,000
Total Sources	66,300	73,200

Alberta Municipal Financing Corporation

The Alberta Municipal Financing Corporation makes loans to municipalities, school systems and hospitals at interest rates based on its cost of obtaining funds. The corporation's borrowers benefit from its access to the Canada Pension Plan Investment Fund and from a provincial government guarantee of the corporation's borrowings.

In the 1986 calendar year, the corporation expects to lend $380 million to Alberta municipalities, school districts and hospital boards, compared to $338 million in 1985. This 1986 lending activity will be financed by borrowing an estimated $350 million from the Canada Pension Plan Investment Fund and $200 million from market sources.

Through the Municipal Debenture Interest Rebate Program, which is funded by a budgetary appropriation of the Department of Municipal Affairs, the government will provide municipalities with grants totaling $120 million to reduce effective interest costs on many of the corporation's outstanding loans.

Alberta Municipal Financing Corporation

(thousands of dollars)

TABLE C4

	1986 Estimate	1985 Actual
Programs		
Direct Lending:		
Municipal Loans	200,000	196,639
School Loans	179,000	140,906
Hospital Loans	1,000	—
Total Direct Lending	380,000	337,545
Financing		
Cash Required for:		
Direct lending	380,000	337,545
Debt repayment including sinking fund contributions	428,000	154,421
Repayment of short-term notes (net)	—	15,000
Other	43,000	63,651
Total Cash Requirements	851,000	570,617
Sources of Financing:		
Loan repayments	235,000	234,875
From sinking fund on debt retirement	66,000	45,000
Canada Pension Plan Investment Fund	350,000	290,742
Capital markets	200,000	—
Total Sources	851,000	570,617

Appendix D

1985 Alberta Economic Performance

Tables and Charts

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D1 Summary of Key Economic Indicators 70

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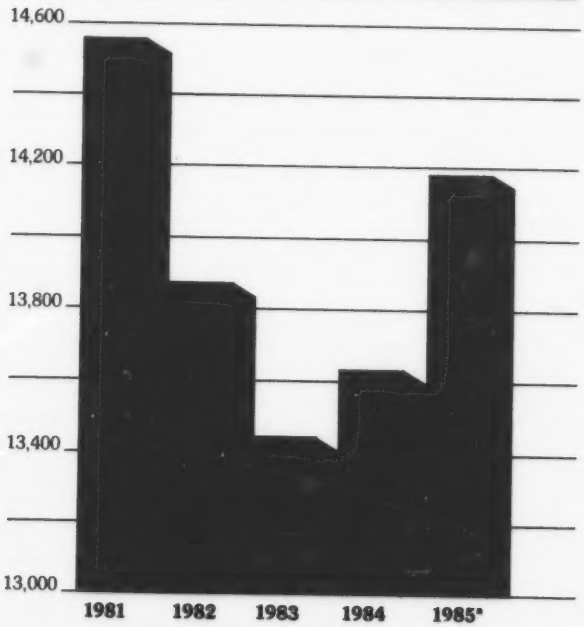
D4 Natural Gas Exports to the United States 71
D5 Total Footage Drilled 71
D6 Oil and Gas Investment 72
D7 Net Farm Income 72
D8 Unemployment Rate 74

1985 Alberta Economic Performance

In 1985 the Alberta economy experienced a broadly based recovery led by confident growth in consumer and investment expenditure. Real Gross Domestic Product grew by 4%. Chart D1 illustrates Alberta's recovery from the 1982-83 downturn.

Real Gross Domestic Product
(millions of 1971 dollars) **CHART D1**



* Estimate

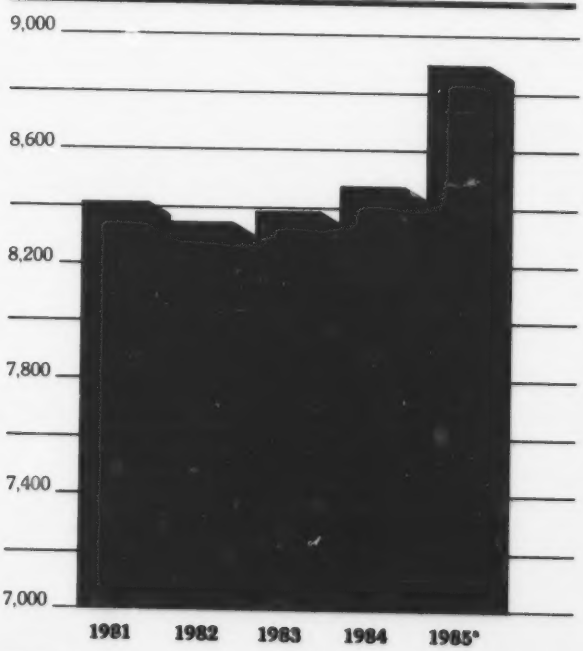
This excellent performance occurred despite the continuing weakness of world commodity prices and a particularly poor crop year. A renewal of private sector confidence and initiative more than offset these negative factors.

Retail sales grew by 13%, with expenditure on durables being especially strong. As Chart D2 shows, total real consumer expenditure rose by about 5% in 1985 giving considerable impetus to the Alberta economy.

Real investment grew by 7% in 1985. Two forces were at play: the overbuilding of the late 1970's and early 1980's was almost all absorbed, and the energy pricing and taxation regime improved sharply. Lower interest rates also stimulated investment in Alberta's capital intensive economy.

The signing of the Western Accord in March deregulated oil prices and marked the beginning of relief for Alberta oil and gas producers from the onerous taxes of the National Energy Program. In June Alberta introduced a substantial royalty reduc-

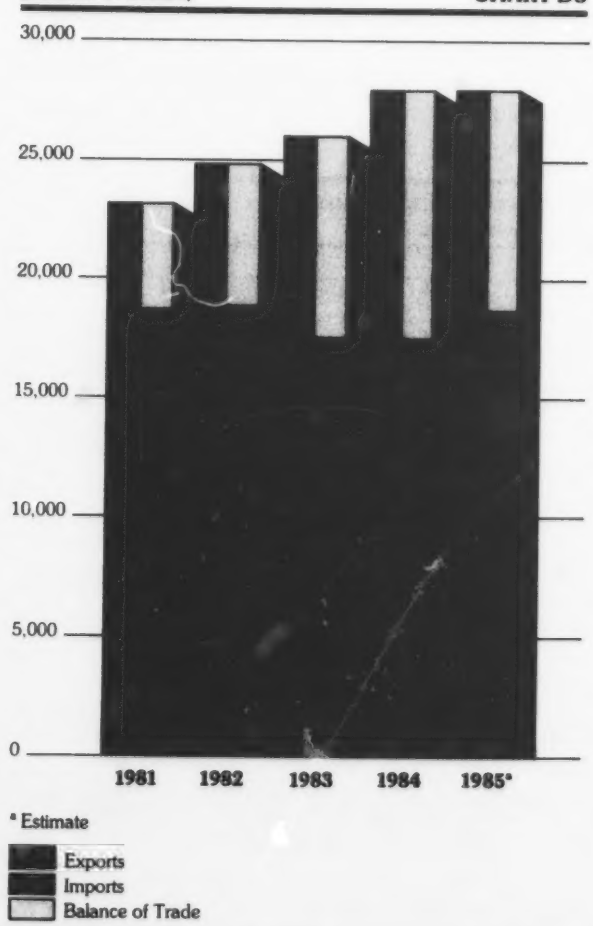
Consumer Expenditure
(millions of 1971 dollars) **CHART D2**



* Estimate

tion and incentive program. The Agreement on Natural Gas Prices and Markets permitted immediate competitive gas pricing in November, 1985 for exports to the United States, and by November, 1986 for domestic sales. The more favourable regulatory and tax environment improved the financial situation of producers and helped to stimulate a 31% increase in drilling, which accounted for much of Alberta's surge in investment activity.

External Trade
(millions of dollars) **CHART D3**



Real exports grew by about 1.5% in 1985. Chart D3 illustrates that exports have risen substantially over the past several years. With so much of Alberta's production destined for export, external factors continue to have a powerful influence on the province's economic outlook.

Another indicator of Alberta's improved economic performance in 1985 was the fall in the unemployment rate. The seasonally adjusted unemployment rate ended the year at 9.4%, 2.6 percentage points below its 1984 peak and significantly better than the Canada-wide average of 10%. In terms of annual averages, the unemployment rate fell from the 1984 level of 11.2% to 10.1%. Key indicators of Alberta's economic strength in 1985 are given in Table 1.

Summary of Key Economic Indicators
(percentage changes) **TABLE 1**

	1984[a]	1985[b]
Real Gross Domestic Product	1.4	4.0
Real Investment	−13.8	7.0
Real Consumer Expenditure	1.0	5.0
Real Exports	3.9	1.5
Population	−0.2	0.3
Consumer Price Index	2.6	3.0[a]
Unemployment Rate (level)	11.2	10.1[a]

[a] Actual
[b] Alberta Treasury estimates

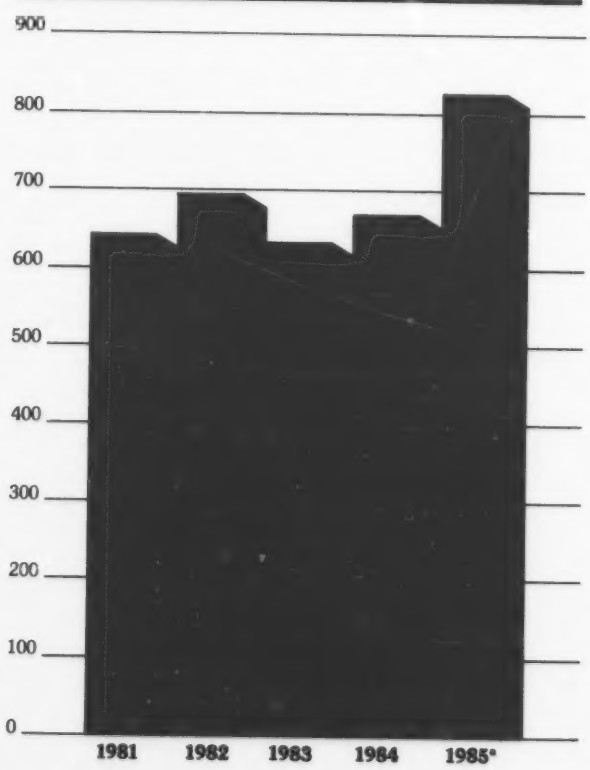
Oil and Gas

Production of crude oil and equivalent reached 1.3 million barrels per day in 1985, a slight increase from the 1984 level. Synthetic crude production increased by over 25% to 168,000 barrels per day, due primarily to improved capacity utilization. Bitumen production rose by almost 60% to 43,000 barrels per day as new in-situ projects came on-stream. Given limited pipeline capacity, some conventional production had to be shut- in to permit this rapid expansion of non-conventional production. Conventional crude production fell by about

5%, but would have remained fairly constant in the absence of shut-in.

Natural gas sales increased by about 10% in 1985 with export sales being the chief source of growth (see Chart D4). The new natural gas agreement should stimulate continued increases in the volume of gas exported to the United States.

Natural Gas Exports to the United States
(billions of cubic feet) **CHART D4**

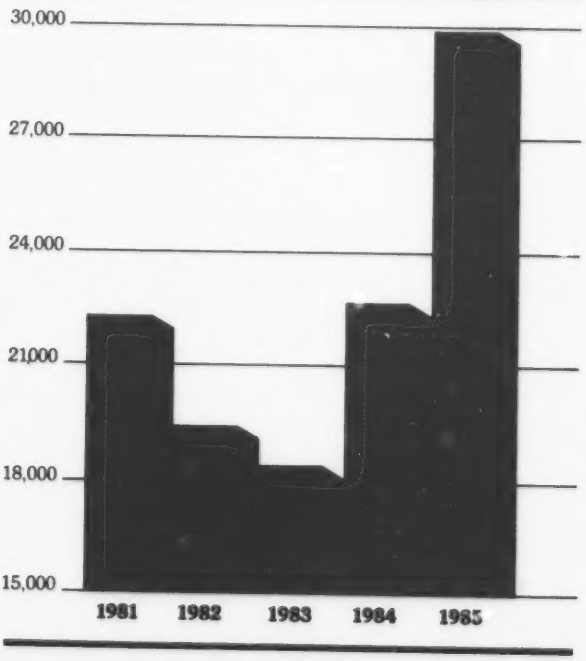


* Estimate

As a result of the Western Accord and the Alberta government's June initiatives, the financial performance of the petroleum industry improved significantly in 1985. Results from the Petroleum Monitoring Agency Survey show that, in the first half of 1985, internal cash flow from production rose to $5.6 billion, up 15% over the same period in 1984. The industry benefited from increased production, higher average wellhead prices, lower taxes, lower royalties, lower interest expense and higher gas export volumes.

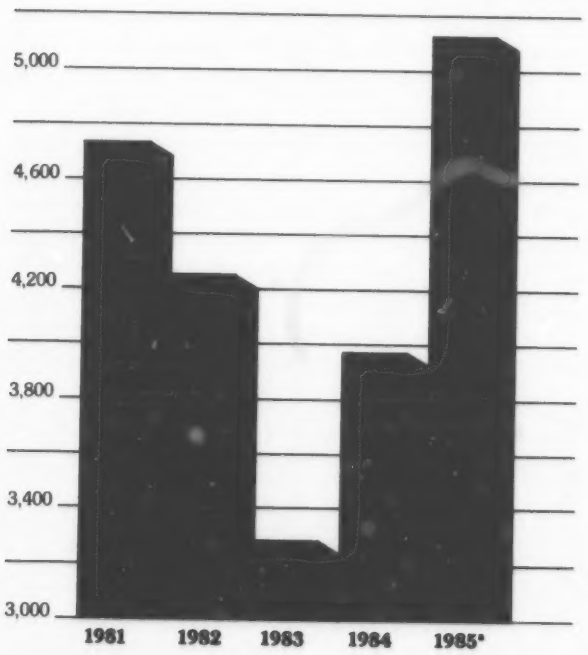
The improved financial condition and regulatory environment strongly stimulated drilling activity in 1985. As shown in Chart D5, drilling activity increased by 31%. The total number of wells drilled was 7,623, a new Alberta record. As Chart D6 indicates, total oil and gas investment activity rose by an estimated 29% in 1985, accounting for most of Alberta's increase in overall investment. Early indications are that this greatly increased drilling activity had a good success rate, giving rise to optimism with

Total Footage Drilled
(thousands of feet) **CHART D5**



respect to both future production levels and exploration possibilities.

Oil and Gas Investment
(millions of dollars) **CHART D6**



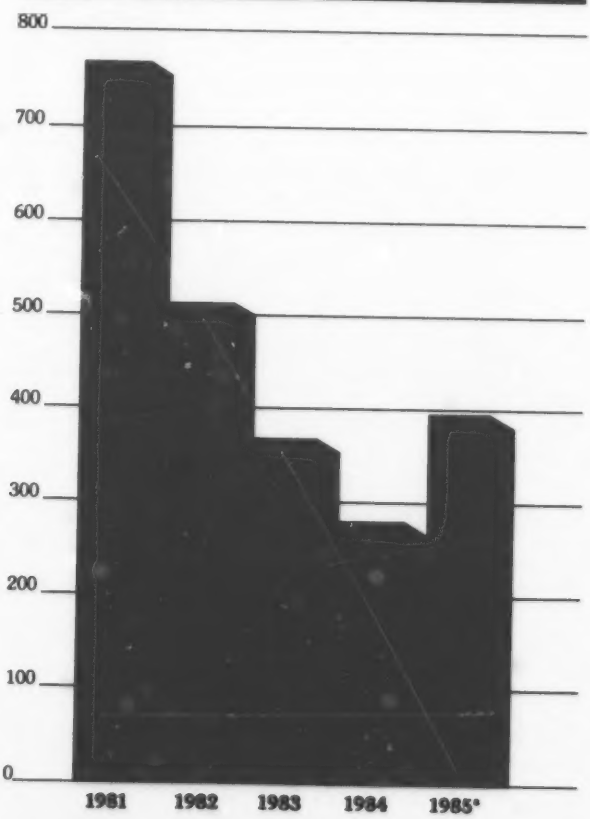
* Estimate

Agriculture

Grain production fell last year as a result of early season dry weather conditions, grasshopper infestation and heavy rains at harvest time. Wheat was the most seriously affected crop. Poor yields, crop quality and prices resulted in a decline in wheat crop receipts to a level of $720 million. Canola receipts fell by almost 15% from the record high 1984 level due primarily to lower prices. Barley receipts fell by about 10% from an already depressed 1984 level. The absence of a sugar beet crop reduced receipts from non-grain crops. Total crop receipts including crop insurance and grain stabilization payments were down by about 5% to under $2.0 billion.

In contrast to the crop situation, livestock sales increased in 1985. Receipts from the sale of cattle and calves rose by over 2%, despite generally weak prices. The increase came largely from cows, however, indicating a reduction in the size of the breeding herd. The resulting lower inventory and productive capacity has already led to some firming

Net Farm Income
(millions of dollars) **CHART D7**



* Estimate

of beef prices. Hog production increased by 12% in 1985, but receipts declined by about 4%. The implementation of the National Red Meat Stabilization Plan should reduce price volatility for both cattle and hog producers, and help stabilize production. Lower feed grain prices are already easing the cost squeeze on livestock producers.

Chart D7 shows the changes in net farm income in recent years. As a result of unfavourable weather conditions and weak market prices, agriculture was the only major sector that was unable to share in the overall resurgence of the Alberta economy in 1985.

Other Primary Industries

In 1985 lumber production exceeded one billion board feet for the third consecutive year. High production levels world-wide have softened lumber prices and producer profits. Pulp prices fell in early 1985 due to market oversupply, but have now stabilized. Production in Alberta continues at near full capacity, keeping unit costs low.

Alberta had record coal production in 1985, but low prices inhibited substantial revenue increases. Most Alberta coal is used either for world steel production or to supply local power plants.

Sulphur producers enjoyed an outstanding year in 1985. Revenue reached about $1 billion compared to $632 million in 1984. Strong growth in demand combined with limited world supplies have allowed Alberta companies to play a key role in filling world sulphur demand by liquidating the huge inventories built up during the past decade. Alberta's sulphur is shipped world-wide and accounts for about 40% of the world's sulphur trade.

Manufacturing and Processing

Alberta's manufacturing and processing industries contributed substantially to the overall economic expansion in 1985, with shipments up by 8.5%. The value of shipments in the petroleum and coal products industry showed particular strength, continuing a steady growth path by surging 19.4% to $4.6 billion. This increase resulted largely from the first complete production year for the Shell Scotford refinery, combined with growing exports and increased western Canadian demand.

The value of shipments in the chemical products industry grew to about $1.8 billion in 1985. Conditions in the petrochemical industry were mixed. Ammonia producers are operating near capacity. Output of polyethylene is increasing with the recent opening of Dow Chemical Canada's new plant near Edmonton. Methanol remains in oversupply with weak prices. Urea prices have dropped over the past year prompting the temporary shutdown or slowdown of several plants in Alberta. Ethylene and ethylene derivative plants are operating at high levels.

The value of shipments in the food and beverage industries remained near the $4 billion mark in 1985 despite problems in the meat processing area. Shipments in the primary metal, metal fabricating products and machinery industries were favourably affected by the upturn in oil and gas investment, and reached almost $1.9 billion in 1985. Shipments in the non-metallic minerals sector, mainly cement, surged to almost $500 million in 1985 as a result of increased building construction.

Building Construction

In 1985 renewed investment growth extended the economic recovery to the building construction sector. Alberta had 8,300 housing starts, an increase of over 1,000 from 1984. Housing inventories declined, vacancy rates fell, fewer foreclosure actions were initiated, more building permits were issued and land servicing activity increased. The absorption of unused commercial and industrial space also progressed well in 1985. As a result, new projects were initiated.

Services

The service producing sector includes five industries: transportation, communication and other utilities; wholesale and retail trade; finance, insurance and real estate; community, business and personal service; and public administration and defence.

In 1985 the service sector reflected the growth of the overall economy and particularly the increase in consumer expenditure. The 13% increase in retail sales greatly stimulated the trade industries, particularly later in the year. Employment in the service industries grew by over 2.5% in 1985, representing an increase of about 20,000 jobs. The large drop in Alberta's unemployment rate in 1985 was in large part a result of service sector growth. This sector now employs about 72% of all working Albertans.

Labour Market and Prices

In 1985 Alberta's labour market conditions improved considerably. After falling each year since 1981, employment grew by almost 1%. The labour force fell slightly due to a slight decline in labour force participation together with some net out-migration. This combination of renewed employment growth and a smaller labour force resulted in a sharp fall in Alberta's unemployment rate from an average of 11.2% in 1984 to 10.1% in 1985. Chart D8 shows the trend of the unemployment rate over the past two years. The seasonally adjusted unemployment rate ended the year at 9.4%, well below the Canadian average of 10%.

Average wages and salaries grew by less than the inflation rate in 1985, increasing the competitiveness of Alberta production. The continuing slow rate of increase of consumer prices in Alberta, 3% in 1985 compared to 4% for Canada as a whole, also made our province more competitive.

Unemployment Rate **CHART D8**